

CREDIT

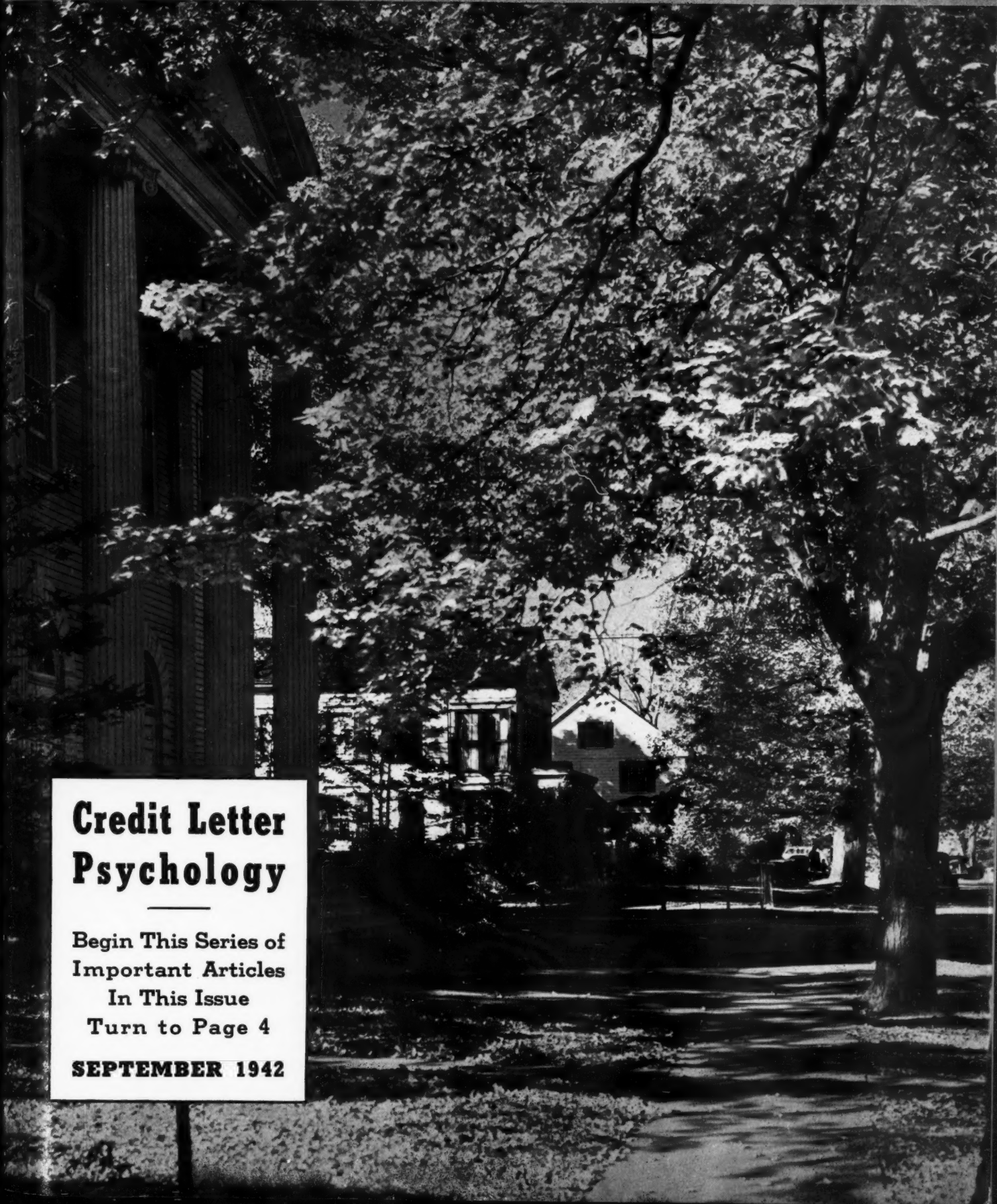
SEP 14 1942

and Financial Management

Credit Letter Psychology

Begin This Series of
Important Articles
In This Issue
Turn to Page 4

SEPTEMBER 1942





**"But I tell you . . .
I don't need
Burglary Insurance!"**

Overconfidence is often the cause of loss through lack of insurance protection. Do not let it keep you exposed to loss through burglary, liability or any other insurable hazard. Let our agent or your own broker survey your needs so that you may be adequately protected from loss.

BE SURE—INSURE!

**AMERICAN SURETY COMPANY
NEW YORK CASUALTY COMPANY**

Home Offices: New York

FIDELITY • SURETY • CASUALTY

CREDIT

and Financial Management

Contents for September 1942

Second Front—At Home (Editorial).....	Henry H. Heimann.....	2
The Psychology of Credit Letters.....	H. M. Sommers.....	4
Joint Ventures.....	W. Randolph Montgomery.....	8
Benefits of Regulation W.....	Albert J. Wagner.....	10
A Philosophy for New Accounts.....	R. N. Harwood.....	12
Report on Summer Institute of Credit Management.....		14
14 Questions To Ask Salesmen.....	W. J. Claussen.....	16
Credit Hazards in War Industries.....	Willard Becker.....	18
Problems in Non-Defense Industries.....	S. C. Munroe.....	20
Pitcher Act Upheld in New York.....		22
Financial Statements in War Time.....	George N. Farrand.....	26
National Officers, Directors and Committee Personnel, NACM.....		28
News About Credit Matters.....		33-38
Business Thermometer.....		39, 40

A Survey of Trends in Manufacturers' and Wholesalers' Activities

Cover: Photograph by Gendreau, New York

Official Publication of the National Association of Credit Men

One Park Avenue, New York, N. Y.

1309 Noble St., Philadelphia, Pa.

Richard G. Tobin
Editor and Manager

Paul Haase
Associate Editor

Clifford T. Rogers
Advertising Manager

ESTABLISHED 1898

VOLUME 44, No. 9

Published on the fifth of each month by the National Association of Credit Men, 1309 Noble Street, Philadelphia, Pennsylvania. Entered as second class matter December 22, 1933, at the Post Office at Philadelphia, Pa., under the Act of March 3, 1879. Subscription price, \$3.00 per year, 25c per copy; Canada, \$3.50; all other countries, \$4.00 postpaid. Copyright, 1942, National Association of Credit Men. The National Association of Credit Men is responsible only for official Association statements and announcements printed herein.



Second Front — At Home

Whatever the prospects of establishing a second front in the European war zone this year, it is of vital importance that we maintain a second front at home. The first home front, of course, is the drive to achieve the war production goals. First, we must win the war—but then we must win the peace. And for the winning of the peace we must maintain, during this war period, an efficiently operating second home front.

What is this second home front? It is composed of all those operations within a country that do not directly contribute to the war effort—as, for example, the manufacture of implements of war—but which indirectly make a great contribution because they help make certain the goals for which we are fighting.

Sound credit is a good example. Without sound credit practices the rapid advance of this nation would never have been possible. Sound credit must be maintained if we are to discharge fully our obligations both as citizens of this nation and as a part of the American system of free enterprise.

Since the industrial, financial and commercial operations of this country would be inconceivable on a completely cash basis, it is essential that we maintain the efficient modern credit services that it has taken us generations to build. The immediate economy value of small budgetary savings must be weighed against the cost of reestablishing the credit facilities and credit practices essential to post-war industry and commerce.

Because a plant cannot be converted to direct war work, it is not torn down. It is, on the contrary, maintained with the attendant "stand by" charges, so that it can be ready to serve when it is again needed. The same principle applies to the maintenance of America's distinctly advanced system of credit services, which must be continued through the war period so that we can, at the conclusion of hostilities, immediately resume our peacetime responsibilities.

Credit services must be maintained through the war period; credit files must be kept up-to-date continually. They are assets of inestimable worth to the nation. Any policy to the contrary will quickly reveal its "penny-wise-pound-foolish" character.

Henry H. Heimann

FIVE ships a day ★ ★ ★

demands Industrial Teamwork

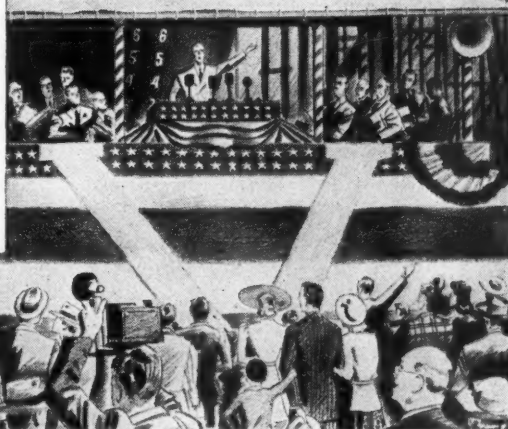
To attain our shipbuilding goal, Industrial Teamwork must be carried to a point undreamed of in days of peace. Steel plate and structural shapes alone will not create the ocean carriers on which so much of the world's hope depends; the cooperation of all men in all yards is essential to bring production to its highest, record-shattering tempo.

Yet even this is not enough. Industrial Teamwork must be carried *outside* the yards—to the other industries which supply the builders with their stuff of industrial life . . . Both in and outside the shipbuilding areas, Insurance contributes to and unifies Industrial Teamwork.



Insurance Aids Industrial Teamwork

Virtually every part of a gigantic shipbuilding program benefits from Insurance planning. Scientific surveys minimize hazards to plant and facilities. When disasters do occur, insurance dollars become available, permitting early resumption of production otherwise frequently impossible.



★ THE HOME ★
Insurance Company
NEW YORK

FIRE • AUTOMOBILE • MARINE INSURANCE

When writing to advertisers please mention Credit & Financial Management

The Psychology of Credit Letters

What Makes Your Correspondence "Click"—No. 1

P R E F A C E

CAs credit men, we might profitably ask ourselves what we interpret as our share of responsibility in our company's general program of building and maintaining good customer relations. Are we simply trying to avoid destroying goodwill that has been developed by another department of the business, or are we actually creating it ourselves?

Even though we still hear occasional echoes of the old complaint that the sales department builds goodwill, and the credit department tears it down, credit men today are, on the whole, avoiding those untactful, antagonizing approaches that result in loss of business.

But we must go much further than that. We must be alert to recognize and to utilize the many possibilities in credit contacts for building and strengthening in our customers' minds attitudes of appreciation, confidence, respect, and general good feeling that not only are valuable to the house as a whole, but actually make our own credit tasks easier, and more effective.

We Must Build Goodwill

THE letters we write, and the personal interviews which we have with customers are largely in the nature of requests of one kind or another. We ask for information, and we ask for payment. Our success in securing what we request is greatly dependent upon the degree of respect found in the customer's attitude toward the house, and toward us as individuals controlling the activities of the credit department.

Consider the fact that a request of any kind made by one who does not command sufficient respect carries little weight; that before one can expect to be entrusted with confidential information he must first inspire confidence; and that cooperation is best secured where there is good feeling.

By H. M. SOMMERS

*Credit Manager, Trojan Hosiery Mills,
Indianapolis, Indiana*

THIS IS THE FIRST

—of a series of articles comprising a study of psychology as applied to business correspondence, and dealing more especially with such work in the credit and collections departments.

THE AUTHOR

—has had fifteen years of business experience, eleven of which have been devoted to credits and collections, and for the past six years as credit manager of Trojan Hosiery Mills, one of the country's largest manufacturers of unbranded full-fashioned hosiery, distributing its products to a diversified and nation-wide market.

THE MATERIAL

—consists of excerpts, quotations, and complete letters from the author's files of correspondence, written to meet the specific, practical problems which arose from day to day as credit manager. It is knowledge born of experience, and selected for its adaptability to the situations with which all credit men deal.

We therefore owe it to ourselves, as well as to our organizations, to make a large contribution in a positive way to the creation and maintenance of goodwill, because in the work of our own departments it pays recurring dividends.

It is with emphasis upon this long range objective as an important by-product of credit and collection letters, which are at the same time de-

voted to the accomplishment of more immediate ends, that the material has been compiled. The psychological principles which are employed are not in the least original or new. They derive from many sources: from the field of general and applied psychology; from a comprehensive analysis of the practical principles embodied in tested letters, such as those found in the published compilations acknowledged in the bibliography; from the practices of other credit men, and of salesmen; and from ten years' personal experience in credits.

The actual phrasing and application of these principles is the author's own, as it has been used in a line of business serving a clientele of dry goods stores, large and small department stores, general stores, shoe stores, and women's specialty shops.

Psychological Ammunition

LETTERS have been stripped down to their bare psychological elements, which are then presented in the form of phrases, completed sentences, and paragraphs, grouped according to the technique which they illustrate, and accompanied by an explanation. Complete letters appear only as supplementary material at the end of each chapter. The fragmentary method is preferred because the material is thereby rendered more accessible, and adaptable. Around these nuclei complete letters can be organized and filled in with necessary details.

Naturally the writer does not intend to present a ready-made set of phrases and paragraphs that can be used verbatim in any and all situations. Such a thing would be impossible, no matter how greatly diversified the material; and to attempt it would be to fail to grasp the one essential attribute of all effective letters: sincerity. Borrowed words seldom ring true. What we say must carry an earnest kind of conviction

that can come only from our own words, formulated to fit the situation as it occurs.

The aim, rather, is to provide the busy credit man with a handbook of psychological ammunition, so to speak, which he can adapt to his own needs and embody in his own words, and to which he may turn as a thought-stimulator when he finds, as we all do from time to time, that the well of ideas has for the moment run dry.

FIVE MOTIVATING FORCES IN HUMAN CONDUCT

Tap the letter T on a typewriter. The type bar swings upward and imprints a T on the paper. Press the button on the door bell, and the bell rings. Release the bowstring and the arrow speeds forward. But with the exception of a few primary reflexes, human behavior can be reduced to no cause-and-effect formula of such extreme simplicity. One who hopes to influence human conduct must recognize at once that he is not manipulating a marionette, and that the securing of a desired response is not a simple matter of pulling a wire or pressing a button, so to speak.

You may make a request, for instance, but you cannot predict what the response will be, unless you carefully consider certain important factors that motivate human behavior. Behind the response, and controlling the direction which it will take are such factors as the personal attitudes of the individual, his habits, emotions, and certain fundamental forces which psychologists call by various names such as "urges" and "drives." These constitute the variable quantity, the plus or minus element that spells a yes or no answer to the request; and the wise credit man reckons with these forces, and plays upon them in a way that they will rally to his aid, directing the response into the desired channel, instead of blocking it.

Fine Tools for the Credit Man

PRIDE, self-interest, fairness, goodwill and fear are the motivating forces with which the credit man primarily deals. These are his major working materials, and to them he applies his technique. The first two lie close to the most fundamental elements of the human personality. Their motivating power is therefore greatest. Fairness and goodwill, on the

WE RECOMMEND
—that you save the issues containing this series of articles. You will find them of value for future reference.

other hand, are traits that derive from less basic sources, and vary widely in strength among different individuals, according to their training. Appeals to fairness or to goodwill are less forceful when used alone, but are effective when used to supplement motives of pride or self-interest. Fear powerfully influences human conduct. The credit man, however, is chiefly concerned with its interfering influence upon activity. As a force to stimulate a desired response, it is effective, but he should use it sparingly, preferring to secure results by means that contribute more constructively to good customer relations.

We shall examine these motives more closely, and see what techniques may be applied to them.

Pride

PRIDE is self-esteem, a sense of personal worth, a feeling of significance or importance. Some individuals have an inordinate share of it, founded more upon fiction than upon fact; others are more honest in their appraisal of themselves; but everyone has it in generous measure, although individuals differ widely as to the particular sources from which they derive their self-esteem.

The average person is proud of his home, his family, his possessions, his achievements, his capabilities, his code of ethics, certain traits of character, his contribution to the community, the good opinion of his fellows. Those who cannot be called "the average person" have their pride, too. Even a criminal manages to think well of himself. He may pride himself on his marksmanship, or his ability to outwit the law. In his own sphere he enjoys a sense of importance.

We all strive to keep our self-esteem intact, are uncomfortable if it is assailed, and miserable if it is temporarily lost. Dr. Alfred Adler says* that no man can long endure the loss of self-esteem. His entire personality will immediately set up a struggle to redeem it. Even a slight depreciation of it stirs him to vigorous ac-

* Page 51—"What Life Should Mean to You."

tion. It may be in the form of a sensible and realistic attack upon the problem at hand, or it may take shape in rationalization and self-deception, but the activity is undeniably directed toward a situation where he can again think well of himself, according to his own standards, whatever they may be.

A Strong Motivating Force

PRIDE, therefore, is a powerful motivating force in the conduct of every human being, for in the hundreds of daily contacts which he makes with the outside world, and with other human beings, and in the solution of problems that confront him, he is constantly having to choose a line of action that will, according to the standards which he has set up, enable him to maintain his self-esteem, to guard it if it is threatened, to restore it if it is depreciated, and to regain it if it is lost. Although he is usually unaware of it, the movement and struggle is constantly in progress, and accounts for much of his conduct.

This dynamic force, therefore, constitutes a large share of the psychological material from which the credit man derives his technique of dealing with his customers in a manner to secure their cooperation. It must be recognized, however, as both a negative and a positive force. It can block and prevent, just as quickly as it can stimulate the desired response.

Its Negative Effect

IF PRIDE is wounded by a clumsy approach, the result is only friction, resentment, and anger, which completely block cooperation. Constantly to anticipate the possibility of this reaction requires alertness, imagination, and sympathy; but to prevent the wounding of pride by fortifying it in advance against possible injury requires a careful study of human vanities and susceptibilities, and of the devious paths the mind will follow in order to preserve self-esteem.

In delicate situations, such as a request for financial information, criticism of a financial statement, rejection of an account, or a proposal of c. o. d. arrangements, pride is always in jeopardy, and it is necessary to save it first, in order to clear the ground for action, and make the response easy; for no human being can be expected to comply with any request that does violence to his self-esteem.

Always assume and infer in your letters that the customer possesses all of the qualities of character that the accepted standards of society require of him, such as courtesy, fair dealing, and integrity. Before he has a chance to feel that he is being singled out for critical examination, make him feel that he is part of a group, the more widespread, the better. Make his weak points universal, but his strong ones exceptional. If you have to criticize him in one respect, be sure first to build up his pride in some other direction. Establish his importance.

Its Positive Effect

AS a positive force in the hands of a resourceful credit man, pride can be his most effective means of securing action. The technique of utilizing it for credit and collection purposes falls into three general types. Pride can be stirred or aroused; it can be pricked; it can even be challenged; but it must never be injured.

Much of human energy is directed toward the attainment of individual significance, each man in accordance with what he considers important in his own particular world. That is why no human being is completely impervious to deserved praise. A man likes to have his accomplishments acknowledged, and his good points noted, because recognition is nourishment to his self-esteem. It does not necessarily mean that he is vain and conceited if he warms up to favorable comment. The reaction is perfectly normal.

A note of honest recognition promotes goodwill, and creates a receptive mood. When we say a man's heart "swells with pride," the figurative expression is an apt one. The spirit becomes expansive and generous when pride is stirred, and responses tend to be favorable and affirmative.

Recognition Stimulates Action

RECOGNITION also stimulates action on the grounds of consistency. Let a man know that you consider him dependable in his habits, and he will do his best to keep you feeling that way about him. Hold up his favorable record before him, and he will try to maintain it. Lay some line of action before him that gives him an opportunity to confirm some good point which he knows you credit to him, and he will usually act.

The Next Article—in this important series will discuss applications of the five motivating forces as presented herewith. The general subject of the October article is "How to Ask for a Financial Statement"—how *Pride, Self Interest, Fairness, Good Will* and *Fear* may be used for such a purpose.

Recognition of his past cooperation prompts him to cooperate again.

Here we must sharply distinguish between flattery and favorable recognition on legitimate grounds. The former is fiction, invented for the purpose of taking advantage of one of man's weaknesses, his vanity. Flattery is in bad taste, it is unfair, and as a technique it is unsound. Its insincerity is quickly detected, and creates distrust. Recognition, on the other hand, is honest and sincere comment, based upon fact, and aimed at promoting good feeling, and securing action on an honorable basis. You are doing constructive work when you hold up a good record and encourage consistency.

Observation will provide plentiful material upon which you can honestly and sincerely base your little comments. Your customer's business ability, his paying record and dependability, his fairness, his cooperative attitude, the appearance of his store, his service to his community, or his importance as a customer—all these invite recognition.

Pricking Pride

WHEN we arouse pride, we hold up a standard and suggest that it be maintained. When we prick pride, we hold up a standard and directly imply that it has not quite been maintained. "This is not like you, Mr. Jones" makes Mr. Jones a trifle

uncomfortable. Something has penetrated under the surface of his self-esteem and minutely attacked it. Since, as we have seen, self-esteem struggles constantly to remain intact, Mr. Jones wants to do something toward correcting the situation.

In the gentler methods of stimulating action through pride which we have already discussed, we imply that the individual actually merits the high appraisal which he has been given. When we challenge pride, however, no such implication is present. Quite the contrary, we show the wide discrepancy between the customer's performance and what was expected, and delicately or broadly, as we may choose, we show that it is up to him to prove himself. Self-esteem is thus deliberately assailed, with the object of stimulating a vigorous movement to protect it. The technique is bold. It should be used only in later collection stages after gentler methods have failed.

Social Pressure and Pride

THE approval of others builds up self-esteem, a strong reason why individuals attempt to do what society expects of them. If you supplement a request for information with a remark about your customer's "fair and open-minded attitude toward questions of credit," you will more than likely receive a friendly answer of some sort, for even though he may not habitually show the virtue of fairness, he will not like to admit even to himself that he fails to measure up to a generally accepted standard of human conduct when he is directly confronted with it.

In two respects the individual likes to have his behavior merged into that of society as a whole. He wants to share the virtues of others, and he wants others to share his faults. He likes no inference that he falls outside the pale of commonly accepted behavior. He dislikes to be conspicuous for his failings, and seeks oblivion in numbers. That is why we merge a customer in a group when we want to save him from embarrassment, and why we gently set him apart when we want to prick his pride and cause him to act to regain his position within the group.

Early collection procedure following this technique may use a rubber stamp on a statement, or a letter that is obviously a form. They imply generality. Later procedure begins to

take the customer out of the rank and file, and to give him a feeling that he is part of a decreasing minority. Final letters indicate that his case is one of two or three that is engaging the attention of the top executive. In a progressive manner social pressure is brought to act upon pride.

Self Interest

ON the eve of going away for two weeks of relaxation at his summer cottage, a man said to me, "I'm not going to do a thing I don't want to do, unless the house catches fire." But in that event as he was quick to agree a moment later, he still would be doing something he wanted to do, and that very much.

Little discussion is needed to emphasize the importance of the self-interest motive in stimulating human activity. Man is fundamentally selfish. His history is a long one of struggle for existence against great odds. What helps him to survive and continue are matters of prime consideration. It is undeniably his misfortune that he is so slow in learning to place the welfare and interests of others on par with his own, and to recognize the benefits of cooperative effort for the common good, as opposed to the exclusive pursuit of his individual interests.

Profit Motive Rules

BE that as it may, the business world operates on the profit motive. Your customer knows very well that your company is in business for profit, just as he is, but what benefits you does not interest him or provide him with a motive for action. He is interested in what benefits him. He wants to preserve his own business and to expand it, so that it will make increasing profits for him. He will give his undivided attention to anything concerned with that.

When you sell him goods, he wants to know if it will have sales appeal to his customers, if it has a good mark-up, if it will give satisfaction to the consumer, and build goodwill and steady patronage. He is interested in knowing what your house will do to promote his welfare; what services you will give to him; how you will help him to sell your product; to what extent he can depend upon you to make your word good; if you will take back defective merchandise without loss or trouble to him; and whether the credit department

will cooperate with him if he becomes temporarily pressed for funds.

What Is Your Job?

AS it affects credit transactions, his self-interest may stand in the way of the cooperation you want. He may, for instance, feel cautious about giving out financial information. Your task is first to convince him that he has nothing to lose, and then to show him what he has to gain by cooperating with the credit department. Recreate his desire for the goods, and his wish to do business with your house on a basis of self-interest.

Self-interest can be used constructively in collection appeals. The customer's credit standing is one of his most productive and necessary assets. Sell him its value, and show him that you are sincerely interested in helping him to preserve it, and you will secure both his cooperation and his confidence.

You cannot expect your customer to do something just because you want him to do it, or because you think he ought to do it. He will do it only because *he* wants to do it, and one of the most effective ways to make him want to do anything is to show him how he will benefit by doing it.

Fairness

FAIRNESS is an attitude of appreciation and respect for the rights of another weighed properly against your own.

Who has not watched a group of children at play when a situation develops that leads one of the group to feel that his rights are being usurped. There are accusations and counter-accusations, and a general squabble ensues. A strong child will in some manner dominate such a situation, but a weak one will withdraw with the complaint, "I'm not going to play. You're not fair!"

Many so-called appeals to fairness in credit letters smack of this same childish and defensive attitude. Never accuse your customer of being unfair, or even hint at it. When you do, you assume a defensive position, and that is a position of weakness. Approach the question of fairness from a position of strength. When it becomes necessary for you to assert your rights, as many times it does, particularly in the matter of dis-

counts, adjustments, and collection procedure, first show your customer that you respect his rights. That wins his confidence, and encourages a reciprocal attitude. It is the weighing and balancing of the rights of both parties that effectively appeals to fairness, not the one-sided presentation of the rights of the injured party.

Give Customer Your Viewpoint

WHEN you begin to balance your rights and interests against those of your customer, do it unobtrusively. An effective way is to place him in your position. Bring the situation home to him from your point of view by reversing his position from that of debtor to that of creditor, drawing parallels between his business problems and yours. State your side of the question quietly, but firmly, in a simple straight-forward manner. Nothing begets respect like quiet self-respect.

Of course, you can actually mention fairness, by a positive expression of confidence that he is a fair-dealing kind of person. That, however, as we have already seen in our discussion on pride, is intrinsically an appeal to a man's pride in his own personal characteristics. Because he does not like to admit that he falls short in a personal trait generally expected of everyone, he is likely to respond favorably even if he is not habitually fair.

As distinguished from that appeal, however, if you are really aiming at a man's sense of fairness, don't mention it. Simply present the matter of rights and interests in proper balance, and let his nature take its course. If he is fair, the appeal will have its effect. If he is not fair, no accusation, or negative implication will make him so.

Goodwill

IF you have had no previous associations with a customer, an appeal to goodwill is naturally only a general one, based on the fact that friendliness stimulates friendliness.

Kindness cannot be fabricated. It comes from an attitude within, that recognizes the essential equality of all human beings. It is on this common ground of equality that good feeling is developed. If a letter is hesitating and apologetic, it reflects an attitude of inferiority, and invites a gruff and dominating response. If it reflects an

(Continued on page 24)

Joint Ventures

A Type of Business Association Developed by War

C Joint Ventures, or Joint Ventures, as they are sometimes called, may be defined as contracts in which two or more persons (constituting together one party thereto), as contractors, jointly and severally bind themselves, for their mutual benefit, to perform definite promises or obligations in a certain special transaction, their interests in which are separate and apart from, and not joined with any other interests. Or, as more briefly defined in the decision in *Forman v. Lumm* (212 New York Supplement page 487), "A Joint Venture is association of two or more persons to carry out a single business transaction for profit, for which purpose they combine their property, money, efforts, skill and knowledge."

As the relationship is now understood, it is almost purely American although it is also used in England. The authorities report that during the remote Roman period some such relationship was recognized, but like the ancient mortgage transaction, it was not always practiced in a manner equitable to all. It took years of experience and American ingenuity to develop the relationship into an instrument which is really helpful in conducting business affairs.

Similar to Partnerships

THE relationship of the joined parties in such contracts verges on partnership, and very little difference actually exists. In fact, as the decisions reveal, it is quite apparent that the theory of the law of partnership is being applied. For example, in *Hamlin v. Robinson* (162 New York Supplement page 531) the court stated that the joint venture is subject to the same rules as a partnership so far as concerns questions of duration thereof, and the exclusion of a member from participation in profits, and that the intention of the parties is controlling (*Kent v. Universal Film Manufacturing Company*, 193 New

By

W. RANDOLPH MONTGOMERY

General Counsel, N. A. C. M.

York Supplement page 838; 200 New York Appellate Division page 539).

A slight difference does exist, however, under ordinary circumstances, particularly when one coadventurer attempts to bind the other in his dealings with third persons. Also, the joint venture covers but one particular transaction while a partnership may continue indefinitely for various kinds.

The Nature of the Contract

THE difference between a joint venture and an ordinary contract is marked. The usual contract may be made between a buyer and seller, the latter of whom agrees, and is able to deliver merchandise or to perform certain specified services. Joint contractors or adventurers, on the other hand, agree to perform the contract as one collective party to the transaction by exercising their respective combined resources, often quite different in nature, but dependent each on the other for the completion of the enterprise.

Often the joint contractors do not realize the status of their relationship when they enter into the agreement and do not know that they are operating and are controlled by the law relating to joint ventures, which are gradually being placed in a special category. Consequently, a contract, which is believed to be just an ordinary written statement of mutual promises, or an agreement of employment, or even partnership, may be held to be a joint venture.

What Is Relationship?

WITH this in view, of notable importance is the status of the relationship of the promisors and their liabilities and obligations which each assume jointly as well as severally. A properly drawn contract

of joint venture, therefore, will set forth the intent, and will use appropriate words to bind the promisors to complete the whole of the obligations either together, or separately if one or the other fails to perform. In connection with these requirements a credit statement evidencing the ability of both parties to perform is a wise preliminary.

In most jurisdictions the words "we jointly and severally," "we, or either of us," or, "I promise" (followed by the signatures of two or more promisors), mean just this, but in other jurisdictions where the influence of the Roman Laws still prevails these expressions are not always so interpreted. It follows, therefore, that such expressions should be supported by additional words of explanation so that the joint and several obligations may be enforced and the contract fully completed regardless of subsequent events, including the insolvency or the death of one of the parties.

Joint and Several "Features"

SUCH expressions as "we will undertake," "the directors promise," or, "we promise," import only a joint liability, and do not carry the joint and several feature which is so necessary in joint ventures, as above mentioned; and as are shown by some actual illustrations below.

Releasing one adventurer from his obligations, in some jurisdictions, discharges all from liability, and a well-drawn joint contract provides for this contingency.

The status, as between themselves, of the joint adventurers is one of the most important features of the agreement. Is there in fact a joint venture, or is there merely a contract of employment between the parties, or is there a partnership relation?

For example, certain persons entered into agreements by the terms of which one was to edit, cut, and title a motion picture film which was in the possession and control of the other.

It was provided that the parties should receive an equal share of the net profits until each had received \$2,500, and that thereafter the profits should be divided in a manner prescribed. The owner of the film agreed to advance sums of money in furtherance of the enterprise, to be returned to him out of the profits. Later he breached the contract and claimed that the agreement was merely one of employment. But the Court held otherwise since the facts disclosed an apparent intent of the parties to proceed as joint adventurers. There were three agreements used in connection with the enterprise, none of which was clear, and the court was forced to read all three together in reaching its decision. Hence, clarity in connection with such agreements also becomes an important feature.

Presumption of Authority

ANOTHER element worthy of mention is the right of another person who deals with the joint adventurer in good faith and without knowledge of any limitations upon his authority. There is a presumption that the adventurer has been given the power to bind his associates by such contracts as are reasonably necessary to carry on the business in which they are presently engaged, and this is so even though they may have expressly agreed among themselves that they should not be so liable.

But this is not the law if commitments are made covering transactions outside the scope of the business of the adventurers. A third person, under such conditions, deals with a joint adventurer at his peril. While this feature resembles a partnership, and is one of the similarities referred to above, yet there still exists a fine distinction between them because the contract covering joint ventures will (or should) define the scope of an explicit enterprise.

It was stated in the early New York decision (1855) of *Mobbett v. White* (12 New York page 442): "The relationship subsisting between parties is of the most intimate and confidential nature. They are joint tenants of the stock and the effects of the company, their interests are joint and mutual ***." "Such is the individual nature of their interests, and the capacity of every member to act as the authorized agent of all, that what-

What's a Person?

Washington.—In the interests of uniformity and simplicity, the Office of Price Administration has adopted a common legal definition of the term "person" to apply generally in OPA price regulations issued up to now.

The definition, following that of the Emergency Price Control Act, the General Maximum Price Regulation and recent price regulations, reads:

"The term 'person' includes an individual, corporation, partnership, association or any other organized group of persons, or legal successor or representative of any of the foregoing, and includes the United States or any agency thereof, or any other Government, or any of its political subdivisions, or any agency of any of the foregoing."

ever he does in the course of the partnership business has the same efficacy as if all have severally joined in the act."

Ordinarily, all members of a partnership are responsible for torts committed by one member in the course of the partnership business, and, it follows that a third person, dealing with two or more persons who are doing business together, should inquire into the nature of the existing relationship.

Variances in Rulings

THE facts in the decision of *Clark v. Rumsey* (69 New York Supplement page 102; 159 Appellate Division page 435) are interesting to illustrate variance between the partnership and joint venture rules. Several persons there agreed that each should pay a sum of money for sinking a gas well. In the event that gas was found in paying quantities, they were to share the proceeds. A committee of their number was appointed who consulted with a man to sink a well to a specified depth for the sum so subscribed. Gas not being found, some of those signing increased their subscriptions, and the committee directed the contractor to continue the well. The contractor knew the terms of the agreement, and attended nearly all the meetings of the subscribers, and must have known that some of the parties had refused to add to their first subscriptions. Held, that the contractor had no reason to believe that the subscribers who paid additional money were partners with those

who did not; and that the latter were not liable for any part of the expense incurred for continuing the work after the amount of their subscriptions was exhausted.

Taylor v. Bradley (39 New York page 129; 100 Am. Dec. page 415) brings out another phase of the joint adventure. Here it was attempted to be shown that the contract was a lease. The agreement covered the letting of a farm for a term of years. Each party was to furnish a part of the tools and the materials and other articles, and one was to cultivate it and have certain supplies. All products were to be equally divided.

It was held that the agreement was not a lease nor contract for services, but a special contract partaking of the nature of a joint venture.

Confidential Relationships

THE confidential and fiduciary relationship existing between joint adventurers is illustrated by the decision in *May v. Hettrick Brothers* (181 New York Appellate Division page 3; 226 New York page 580; 123 North Eastern page 878). This case was decided in 1919 shortly after the last war. The parties entered into an agreement whereby one was to negotiate the sale to the Serbian Government of one-hundred-thousand shelter tents which the other was to manufacture, and both were to share in the profits. After negotiations were complete, the manufacturer secretly made a deal in his own behalf with the agent of the purchasing government to furnish tents for a lower price and agreed to give the agent a rebate as an inducement for him to continue the secret transactions.

In an action for an accounting of the secret profits the manufacturer maintained that he took up the negotiations in his own name and that the profits were separate and distinct. The following questions were among those certified to the court: (a) Was there a joint venture or a quasi partnership? (b) Was there any fiduciary relationship existing between the parties? The court held in the affirmative and the manufacturer had to account for the secret profits. The court stated that good faith and scrupulous honesty is required of each joint adventurer, and good faith requires that neither of them shall make a secret profit out of the undertaking.

Benefits of Regulation W

Consumers' Pay-As-You-Go Plan for Victory

ON Regulation W, the federal control on consumers' credit, in its early months at least undoubtedly was regarded as unwarranted governmental restriction by some merchants and customers accustomed to the free and easy credit customs on which American business has boomed in the past.

By this time, however, it must be apparent to everyone that the regulation, as further tightened by amendment last May 6, is a definite aid to our war program and a step toward cushioning the economic shock most of us feel will occur after we have won the war.

The immediate objective of the restriction is best summed up in President Roosevelt's statement to Congress on the matter:

"To keep the cost of living from spiraling upward we must discourage credit and instalment buying, and encourage the payment of debts, mortgages, and other obligations, for this promotes savings, retards excessive buying and adds to the amount available to the creditors for the purchase of war bonds."

"... we must discourage credit and instalment buying . . ." A rather strange note to be echoed approvingly by a credit man in a credit magazine.

Effect on Future Business

BUT I feel that anyone who will fairly examine the present picture and attempt to do a little crystal gazing into the days after the war emergency will say, "Amen." Although most Americans have disliked the idea of regulation, they have come to realize there are some regulations that are very essential. While Regulation W is designed to control consumer credit, the ultimate results are obviously of great importance to industrial, mercantile and banking credit men. Our job as credit men is to see that the flow of credit is properly regulated. The conditions under which credit is available greatly

ALBERT J. WAGNER

*Credit Manager
Mallinckrodt Chemical Works
St. Louis, Mo.*

influences the demand for goods and also the timing for the demand.

In this highly mechanized battle flung clear around the globe, the machines for making war are of far greater importance than ever before in history. To produce the aircraft, ships, guns and tanks needed for the gigantic struggle means the materials for most of the luxuries and many of what we have regarded as necessities of our American way of living must be diverted to our war plants. The skilled men and women who fashion the ingredients into finished products must be changed over from their peace-time pursuits and the executives who plan and direct these functions must make the same transition.

War Needs Come First

A PEACE-TIME consumer credit policy would be a positive detriment in this war economy. Liberal credit terms, particularly with the bulk of the people making good wages, would tend to stimulate the demand for consumer goods. The flow of raw materials into war materials would be diminished and the efforts of workers and executives would be partially diverted from the battle of production.

Let's take what I believe may be regarded as a typical individual case without control of consumer credit such as Regulation W exercises. John Jones for years has been employed on a production line in a large manufacturing plant at \$40 a week. His employer switches over to war production and Jones now averages \$75 weekly as a result of wage increases and overtime pay. The Jones family hasn't been able to save anything on its past income, but with its earnings almost doubled it seems to be in a position to put something away for a rainy day.

BUT during those preceding years the Jones' haven't had much in the way of the extra comforts of life. What things they do have are shabby. Their first thought, with money rolling in, is to spruce up their home and themselves. They start in a moderate manner—new linoleum for the kitchen, a dress for mother and a suit for father. But they find they must pay out in actual cash only a small down payment and have many months to take care of the balance. Their new earning power furnishes the basis for greater credit than they have ever before had extended to them. So they widen their circle of buying more and more, as their appetite for luxuries increases. The result is a buying spree.

At the end, the virtual doubling of the family's income under these unchecked conditions means not only that they have not been able to put away any money, but they have actually gone greatly into debt.

That is an example of human nature in action. Regulation W curbs its working to benefit the individual and the nation.

A Circle of Enforced Savings

IF the Jones' are denied liberal credit—if they must pay as they go, there is started in motion an ever-widening circle of saving. Their limited purchasing restricts the demand for consumer goods and sets free material and workers for the war effort. Finding it mechanically difficult to go into debt, they are stimulated to go the other route and save. Their saving to a large extent takes the form of buying war bonds. The money thus lent to their government goes to the production of war equipment.

This brake on buying, enlarged a million-fold, checks unwarranted price advances and other inflationary developments.

So much for the effect of Regulation W during the war period. After the victory has been won, what?

Some public statements have already been made and certainly hundreds of thousands of small voices have spoken of the possibility of an economic depression after the war. When the gaping mouth of war no longer gulps down the finished products of vast supplies of raw materials, when the war plants stop, when the workers cease, then what?

A Double Debt Burden

OUR government will have a very heavy burden of debt to carry. If there had been no restriction on consumer credit, there would be in addition a crushing individual indebtedness and a pyramiding load of debts by retailers and wholesalers. The Jones' will be faced with a drastic cut in earnings or even an entire loss of income as industry passes through the period of readjustment in which production is again turned into peaceful channels. If they had spent everything they had earned and gone into debt in addition, they will find it increasingly difficult to meet their obligations. Dealers carrying many accounts like that of the Jones family will find themselves more and more in trouble with a large number of uncollectable accounts on their books. Their impossible financial condition will be passed on to the wholesalers and manufacturers.

The result would be a deflationary wave of forced selling, foreclosure and bankruptcy.

A Healthy After-the-War Condition

INSTEAD of this precarious condition, Regulation W will have had a two-fold beneficial effect. Millions of persons who during the war had diverted their earnings from the purchase of goods to war bonds will be able to use their savings to carry themselves through this difficult period. Secondly, there will have been built up a backlog of demand for durable goods, the satisfaction of which will enable industry to change over from war production to peacetime operations with a minimum clashing of gears. If we will remember, after World War I it was the development of new household durable goods and mass production of automobiles, made available to the masses by instalment selling, that furnished the spark to carry the nation's economic machine out of the mire. The mental state of the country will be much better after this war

Instalment Credit In Our National Economy

Consumer instalment credit as a factor in economic fluctuations during periods of both peace and war is the subject of an analysis just completed by Professor Gottfried Haberler of Harvard University for the National Bureau of Economic Research.

Dealing with consumer purchases made possible either through commodity sales credit extended by dealers and producers, and through them by sales finance companies, industrial banking companies and commercial banks, or through cash instalment loans extended by personal finance companies, industrial banking companies, credit unions, and commercial banks, Mr. Haberler's study illustrates the important rôle of instalment credit.

Practically all commodity credit and a large part of cash loans are used for the purchase of durable consumer goods, mainly automobiles, furniture, and electric appliances. Automobiles alone accounted for about three-fifths of the 3,700 million dollars of commodity credit extended in 1940.

It is estimated that between 70 and 80 percent of all consumer instalment credit is used for durable goods. If the figure is assumed to be 75 percent, then for the period 1929-38 an average of about 45 percent of all durable consumer goods was sold on monthly payments. The percentage rose (with fluctuations) from 40 percent in 1929 to 58 percent in 1938. In the period 1925-40 roughly three-fifths of all new and used automobile sales, half of all sales of household appliance stores and two-fifths of furniture store sales were made on instalment credit.

Fluctuations in these percentages show little correlation with business cycles. A strong cyclical pattern is displayed, however, by the three basic series used as measures of credit expansion and contraction. These are (1) monthly series showing volume of new credits granted, (2) amount of credit outstanding, and (3) change in outstanding credit from month to month.

An examination of the relationship between the two types of instalment credit (commodity sales and cash loans) and business cycles reveals that sales credit follows cycles more closely than cash loans do. New credits, outstandings, and net credit change hit a peak in 1929, a low point in 1932 or 1933, another peak about 1937 and another trough in 1938. Substantially the same cyclical patterns as in the aggregate series are to be found in the five constituent series—automobile dealers, department stores, furniture, appliance and jewelry stores.

The cyclical pattern of cash loan credit is somewhat different; the violence of cyclical fluctuations is less and the correspondence with general business cycles is less pronounced. Cash loan credit has shown a sharp upward trend in recent years; its year-end outstandings, which were 557 million dollars in 1929, nearly doubled in 1937 (1,000 million), and nearly doubled again by 1940 (1,800 million), while commodity credit outstandings at the end of 1940 (2,900 million dollars) and at the peak of 1937 (2,500 million) were only slightly higher than at the peak of 1929 (2,400 million).

if, although the national debt is great, individual indebtedness and indebtedness of retailers to wholesalers is as low as possible. If most individuals have their future earnings heavily mortgaged, they will be less able to face the trying times ahead than if they are financially in the clear, with savings to carry them through.

Summing up the beneficial effects of Regulation W, it makes available for war production material, skill and equipment; promotes the purchase of war bonds; aids in curbing price increases and inflation; creates a back-

log of demand for goods and services in the post-war period, and gives the mass of the people, blessed with enforced savings, some peace of mind and feeling of security.

This regulation seems to be just what the credit fraternity wants. The retailer should be able to get his receivables in excellent condition. This benefit should in turn reflect favorably upon the wholesaler and manufacturer.

Above all, Regulation W is of the greatest importance to our war program and ultimate victory.

A Philosophy for New Accounts

Credit Executive Has Big Opportunity to Build Sales

TO anyone responsible for the analysis of credits, the proper handling of a brand new business requires the utmost in tact, resourcefulness, attention to details, judgment, all the elements which an efficient credit executive can marshal for the mutual benefit of his own company and the new customer. On the one hand the executive must keep in the good graces of his own sales department and see that no opportunity for developing a new source of possible, longtime, profitable business is lost. On the other hand he must keep the padlock on his own company's coffers to a degree that assures a reasonable degree of safety.

If he had the vision of a Nostradamus and could say with entire confidence "This company will succeed"

By R. N. HARWOOD

Credit Manager
Edgar T. Ward's Sons Co., Cleveland

or "That company will fail" his job would be simple. Instead, he must rely on information available through several channels; to which he must add a certain amount of good, plain horse sense.

The Negative Attitude Is Out

THE lazy man's way out is to refuse to sell any but high-rated concerns. The credit man who cultivates the "no" habit is no help to his company. He is a millstone around its neck; a wall in the way of progress. He is no more a "credit" man than a sheep is a wolf. He could be dispensed with and his place taken

by any other person able to say "no" just as loudly and finally.

The alert credit executive knows that a new business, asking credit, is extending the right hand of friendship and woe to the man who rejects it. He is making an irretrievable gesture which can never be recalled and he must be sure of himself before doing it.

Seek Reasons for Saying "Yes"

FOR this reason, I always try to cultivate the feeling that I want to sell a new business. I look for reasons why we should sell him and only say "no" to the ones I consider hopeless. I have found that once you have made a new friend and have helped him and encouraged him when he was struggling to get under way, you have a friend for life. I have known friendships developed in this crucial, early stage that neither hell, high water, nor the high pressure salesmanship of competitors can shake loose from this friendly allegiance. Therefore, if I want to sell him—and I wouldn't be doing my job properly if I didn't—I will do my utmost to make him sellable.

In determining the feasibility of establishing a credit to any infant concern, I always take three main factors into consideration. First—because I consider it the most important—is the personal character of the principal or principals. Second—his or their past history. Third—his or their knowledge of, or experience in, the particular line of endeavor to be followed.

Judge by the "Three C's"

ALL of these are important, but no one of them means anything without the other two. The man who has always been scrupulous about his obligations and knows everything there is to know about his business might have a past history which reveals a succession of failures. I wouldn't class him as a good risk because, obviously, he isn't or hasn't



A Negative Attitude Brings a Negative Result

been competent to handle his own affairs.

For example: a man who had just built a machine shop, equipped it completely, and was ready to go wanted credit from my company, which handles steel. He furnished definite proof that he knew as much about this particular type of business as anyone could possibly know; he had a sheaf of orders in his hand, and on the basis of his costs was ready to realize substantial profits from the outset. In addition to this, he had the most honest face I have ever seen on a man. He was entirely frank and outspoken about all of the details of his business. In fact, he sold me so thoroughly that I made a snap judgment and extended him a substantial amount of credit. We finally had to sue in order to collect. Here was a case where a man had the equipment, the experience, and the orders. He just lacked common honesty as it turned out. Proper consideration of all three main factors—the 3-C's of credit—mentioned earlier would have saved up a lot of grief and money.

Most People are Honest

Of course a case of this kind is the exception. There isn't much that can be done with a dishonest person. On the other hand there are scores of perfectly honorable people who merely need a little help and encouragement and any credit man worthy of his salt should be ready to give it to them. Several times I have been asked "What can I do to establish my credit?" This is a question that is right up our alley. We should be able to answer it without hesitation.

It is a sound policy to see that as much information about a new business as is asked for should be given not only to the person from whom he wishes to buy, but to the commercial agencies as well. Many people feel that divulging details of their business is an encroachment on their private lives. It should be the duty of the credit man to point out that only through this can any opinion be formulated and that the would-be customer's best interests will be served through being entirely frank.

A Promise Is a Promise

We must point out to our prospective customer the absolute necessity for being conservative in his promises. He must never make a

Form W-48

CREDIT INFORMATION

Manager
Office Mgr.
Order Dep't.
Credit File

Name

Address

No Limit

Credit Limit

C.O.D.—Standard Sizes Only

Cash in Advance.....Do Not Accept Checks.....

If.....Account in the Amount of.....Not Paid on or Before

.....Do Not Extend Further Credit.

Credit Limit Increased to.....

Credit Limit Withdrawn.....

Date

Signed.....

"We find Form W-48 very effective in our type of operation" says Credit Manager, R. N. Harwood, "though in larger companies something more elaborate might be necessary. But I keep in close touch with all our accounts all the time." The company ships C. O. D. on standard sizes only, since it is Mr. Harwood's experience that customers sometimes change their minds. Form W-48 is used not only to spread original information to 4 key points (upper right), but also to broadcast any change in credit information which these departments should have.

promise he cannot keep and conversely, he should keep any promise he makes. Give me the man who says he can't pay for ninety days over the one who says he can pay in thirty days and takes ninety anyway.

Right now our problem is complicated by the abnormal conditions under which we are working. Mushroom companies are springing up with screw machines in their garages and lathes and drill presses in their basements. According to the Cleveland Chamber of Commerce there were seventy new manufacturing concerns started in Cleveland in 1939; 58 in 1940; 41 in 1941 and approximately 20 to date this year. That's 189 in a little over three years.

What of the Future?

WHAT'S going to happen to these new customers? How many are going to survive after this is all over? Of course, they're making money now, but how are they equipped to meet the complex demands of post-war economy? We all know that a very small percentage will continue and it is up to us to pick the right ones. A lot of our standards have gone by the wayside and it's reaching the point where it's just like try-

ing to put your money on the right horse.

We can't go far wrong if we follow the cardinal rules of common sense.

1. Has he a good personal record.
2. Has he a good practical knowledge of business.
3. Has he sufficient capital to finance the scope of his operations.
4. Has he been in business before and has he a history of fairly successful operations.
5. Does he show a willingness to cooperate with his creditors.
6. Does he show no tendency to over-reach and does he look for profits rather than volume.

In extending credit to a new concern I insist upon strict adherence to our terms. If there is a tendency to ask for time at the outset I put on the brakes. This is because under today's conditions money is "loose." A sufficiently well grounded, new business should be able to discount from the word "Go" at this time, and if they can't I don't play ball except in unusual cases.

A "transfusion" of new business is necessary to the life blood of any concern. It should be our contribution to the sales of our company to see that it flows freely.

Trade Trends: Today and Tomorrow

Analyzed at Summer Institute of Credit Management

THE economic lessons from the period following the first World War which should be kept in mind by the United States in the period after the present war were outlined by Dr. Wilson F. Payne of Babson Institute before the Summer Institute of Credit Management, which met for two weeks beginning July 27 on the campus at Babson Park, under the auspices of the National Association of Credit Men and the Babson Institute of Business Administration.

Discussing some of the economic forces to be loosed at the peace and setting forth some suggestions as to how they may be met, Dr. Payne said that "we may depend upon an incredibly huge backlog of unsatisfied consumer demand at home and we may assume that the credit will be available to carry the goods to the customer.

"Next, we may be assured of the spotlight in world trade. The demands of war-depleted nations will be huge, but in this area the problem of credit is not simple. Who is going to provide the credit for Europe this time—the government or private individuals?

"Lease-lend enters the picture this time as compared with last. Governments are not financially indebted to us; therefore, their nations should be good credit risks," he said at this point.

"This time Europe owes us goods, not money. Will American tradespeople accept the return of those goods? There will be a bitterly fought contest over this issue.

"In lieu of the delivery of goods, our government may accept property rights to raw material. Will that set well with those who must look to the protection of their investments in the domestic raw material extracting equipment?"

As to the post-war price situation, Dr. Payne said that "if we are to avoid the calamitous disorganization of inflation and its equally chaotic collapse, then we must lend a hand to Leon Henderson's efforts, and I do

SICM Profile

● Here's a composite picture of the average student at the Summer Institute of Credit Management, as developed from a survey of those in attendance this year.

1. Number of years in business—14
2. Number of years in credit work—10
3. Number of years as NACM member—7
4. Number of years of formal education beyond grammar school—7
5. Number of employees in credit department—7
6. Approximate total credit sales of your firm during 1941—\$12,800,000.
7. Proportion of total credit sales for which student has personal responsibility—68.33%
8. Present age—36
9. Present annual salary—\$4,650.

not mean merely lip service.

"If we agree with this statement, we are committed to certain post-war behavior. Post-war price control is inevitable, and if we are to have price control, we must also have rationing for there would be no way otherwise to determine what persons should get the goods.

"We are then left with the question, 'For how long a period after the war should price control and rationing be in effect?'

"I propose two years. Thereafter, as prices sag away from their fixed ceiling, control may be lifted. Two years ought to take us through the treacherous waters of reorganizing our private businesses on a peacetime basis."

No Return to "Normalcy"

CURRENT economic and social trends that are already influencing the course of present and future business were outlined by Dr. Carl D. Smith, President of Babson Institute, in one of the special sessions of the Summer Institute of Credit Manage-

ment. Emphasizing that this decade and particularly the post-war period do not promise a "return to normalcy," Dr. Smith said that the economic policies based on "laissez faire" of bygone decades have been definitely supplanted by an increasingly controlled economy.

In support of this thesis, he cited basic trends that must not be overlooked, including the technological advances of the past quarter century, the emergence of new "internal" frontiers replacing the physical frontiers of previous generations, and the slowing up of our population growth.

Other significant trends cited by Dr. Smith include the transition from a machine to a power age, the marked changes in food consumption and its effect on crop production, the growth of labor's role in influencing business management, the increasing stability in investment markets, and the parallel decline of the free market.

The system of price controls adopted during this wartime period, he said, is likely to continue because of a "growth in public feeling that if price controls are workable during war and immediate post-war periods, why should not such controls work with benefit for all during peacetime?"

PPOINTING out that the trend is "toward more rather than less governmental control of business and industry," Dr. Smith added that "as businessmen, we must learn how to work with government and not against it.

"This war is teaching us to question the value of many of our routine procedures and traditional practices. If we are to contribute to post-war leadership, we must possess the ability to make searching evaluations and constructive changes in advance of shocks and crises that will inevitably come.

"Resistance to change is, of course, the common denominator in human make-up. We call it social lag. It implies that our habits are stronger than our intellect.

"Businessmen have great responsibility in helping all others with whom they work and have dealing to live intelligently in these days, when changes are as irresistible as the tides of the ocean."

Mechanized warfare, Dr. Smith said, is revolutionizing the map of the world and "shattering all our preconceived concepts of national and international relations."

"It seems to be wrecking the principle of self-determination and the rights of small nations."

The shrinking of the world from a time span of weeks to a time span of a few hours is emphasized, he said, by the current discussions regarding the desirability of cargo plane possibilities for shipment of supplies to the war fronts.

"If we have not already learned," Dr. Smith said, "we must soon learn that the world has become so small that no nation can live in it segregated from other nations."

"When we win the peace, we must also win the determination to continuously cooperate with the rest of the world in making peace a permanent requirement of world citizenship."

Latin-American Trade

THE effect of the war on the business and cultural relations of the United States and Latin-America was analyzed at two sessions of the Summer Institute of Credit Management. Continuing improvement in the commercial and credit collection conditions in the 21 Latin-American markets during the first half of 1942 was reported by Philip J. Gray, Manager of the Association's Foreign Credit

Summer Institute Is Commended

In the midst of a war-torn world we, the men and women credit executives in attendance at the 1942 Summer Institute of Credit Management here at Babson Park, are particularly conscious of the friendly fellowship we have been privileged to share in conjunction with our educational activities during the past two weeks.

We have been stimulated by the surroundings and the environment, and by the cooperative interest in our welfare of both the Institute and Association staffs. The impetus toward further study that we have received in our classes, the inspiration that has been provided by the excellent instructors comprising the faculty will remain with us to our greater benefit.

Those of us present for the first year understand fully the enthusiasm of previous attendants. Those of us who returned for the second year, who knew from experience the high level of instruction we could expect, nevertheless feel that this expression of thanks would not be complete did it not include this brief measure of appreciation for the even greater benefits we have obtained this year.

We look forward to the continuance of the Summer Institute of Credit Management. We anticipate the renewal of these pleasant associations at the earliest opportunity. The role of the Summer Institute of Credit Management in broadening the understanding of sound credit principles is indispensable. We commend its program wholeheartedly to all credit executives.

Interchange Bureau, in the course of a panel discussion that opened the first day's sessions on July 27.

Sitting with Mr. Gray in the panel were R. M. Binney of Needham, who is Manager of the Foreign Division of the First National Bank of Boston; Donald J. Moore of Wellesley, who is a Boston exporter and foreign trade consultant; and Camilo Rodriguez, Credit Manager of the Davol Rubber Co. of Providence, who is a National Director of the Association.

That evening, following dinner, Dean Robert G. Caldwell of the Massachusetts Institute of Technology, who has served the United States as Minister to both Portugal and Bolivia, discussed the cultural and political aspects of Latin-America.

Stressing the changing scene in the nations to the south of us, Dr. Caldwell pointed out the changes in distances which have been brought about by such technological advances as the radio, the airplane, and the Panama Canal.

He emphasized particularly the remarkable change which has taken place in the general attitude toward the United States as indicated by the contrast between the Rio Conference early this year and similar meetings at the time of the last war, 25 years ago.

Dr. Caldwell told the credit executives and the family members who have accompanied some of the credit men to the campus, of the remarkable economic changes which have been occasioned by the present struggle, among others the establishment of strong dollar credits, the rise of new industries in the southern republics, and the growth of a vast trade among the countries, which was notably lacking in the pre-war years.

In conclusion, Dr. Caldwell indicated the opportunity which these changes have created for the United States in the Western Hemisphere at the present time and pointed out some of the difficulties which still lie in our path and measures which may be taken to overcome them.

IN other panel discussions during their sessions, the credit executives in attendance discussed the role of credit in the war economy and in the period of post-war rehabilitation, the effect of priorities and rationing programs on business, and the influence of recent banking regulations upon credit.



L. T. Hadley of Chicago leads his class in Credit Department Management and Procedures at Babson Park

14 Questions To Ask Salesmen

A Plan Used to Revise Credit Files Periodically

FRom year to year some things are developed in our businesses that are of value, and we find that they are workable, an improvement over what we have had. In the credit end of our business we adopted certain methods and procedures years ago, and have found no improvement for them, while others became obsolete.

For example, take the subject of reports from salesmen. I don't have to tell you that if you write to your salesman, and ask him for a report that he is going to tell you almost everything you don't want to know, and he isn't going to tell you much that you want to know. There is only one way to get the information from your salesman and that is to plunk the questions right at him.

While many have a salesman's report form that usually accompanies a first order, when it comes to a revision of your credit files, I doubt if many have a form that fits such a purpose.

During a certain time of the year, you begin to get skittish on an account, or when it comes to regular revision in your records—and in our organization we revise our records every two years periodically unless something comes up in the meantime that requires an earlier revision—you want to put your salesman on record as to what he thinks of the account and what he knows about the situation.

Make Questions Pointed

THE thing to do, based on my experience, is to get up a carefully prepared and intelligent questionnaire, something that's not too long, and not only gives you a chance to ask your questions but also suggests a form of answer. When you get it back, in just about one minute's time you can review his report.

You can put this form on a duplicating machine, and when you have

By W. J. CLAUSSEN

*Hibbard, Spencer, Bartlett & Co.
Chicago*

used up one set, maybe in the meantime you have found out your form is weak in some respects and you can alter it before running off a new lot.

Our form is entitled "Questionnaire to be filled out by salesmen and returned promptly to credit department." The name and the address of the customer is typed in at the office. Then follows 14 pertinent questions. These are as follows:

No. 1, "Give your conservative estimate of the value of the customer's stock of merchandise."

We generally like to check the salesman's estimate of the value of the stock against the customer's report as to what he thinks it is worth. We don't tell the salesman, as a rule, what the customer says it is worth, because nine times out of ten the salesman doesn't agree with the customer, if he has no idea of the dealers' valuations.

No. 2, "How is the stock divided?"

Get Information About Stock

WE ask that question because a good many of our customers handle implements and furniture and we would like to know the division of investment of these particular lines. For instance, we have hardware, paint, and other lines, and the answer will give us a picture as to how these departments are represented.

No. 3, "How much, if any, dead stock does the customer carry?"

That is rather important information for a credit man to know. Does the customer have good live merchandise or some dead material, and if so, how much?

No. 4, "Give your conservative estimate of the value of the fixtures and some of the principal items included in your estimate."

Now that question is not so appro-

priate today. There was a time years ago when we did want to know whether they had modern shelving, an adding machine and up-to-date equipment. We wanted to know, for instance, if he claimed that he had \$2,000 invested in fixtures, just what was included in that investment. Today, of course, a good many of the stores are modernized, and while I said that it isn't so important, it is still a material question, and desirable to know what proportion of his capital is tied up in store fixtures.

No. 5, "What is the appearance of the store? Check your reply."

No. 1, very good.

No. 2, good.

No. 3, only fair.

No. 4, poor.

No. 5, very poor.

What Kind of a Merchant?

NOW he certainly can make some sort of a selection. He has a pretty wide range there. It is really surprising to know the salesman in a good many instances wants to be honest with you, and he will tell you if it is poor or very poor, and you will get an opinion from the responses received whether the man is a good storekeeper.

No. 6, "Give the names of the nearest competitors of the customer and location of the same."

We want a picture of our dealers' competition. We want to know just how many other hardware dealers there are in the town and where they are located with respect to the customer's store.

No. 7, "What is your judgment as to the business ability of this customer? Check your reply, very good, average, mediocre, poor, very poor."

There is a pretty wide range. He can find an answer in that list, and you don't let him ramble around and tell you very little if you leave it to him to give you his answer.

No. 8, "Does this customer devote

"If he is out of the store part of the time, who is in charge during his absence." I think credit men and credit women will agree that that is a very important question. We have had the experience where a man devotes too much time to the Lions Club or the Kiwanis Club or some other organization. Some of these men become very active in these associations; in fact, more active in the other fellow's business than their own, and it is a good thing to know how much time he is giving to his own business and how much time he is devoting in other directions. That is an innocent question, but it very frequently brings into the credit department answers that have a bearing on the man's ability to run his business and you will know if he is as attentive to his own business as he should be.

Good Bookkeeping Important

No. 10, "How many people are employed in the store?"

No. 11, "What explanation can you offer as to the customer's failure to pay bills at maturity?"

No. 12, "Is the family extravagant? Does customer have unusual expense at home? Explain."

(Continued on page 25)

Name of customer

Address

1. Give your conservative estimate of value of customer's stock of merchandise \$.....
2. How is the stock divided—

Hardware	\$.....
Paint	\$.....
Other lines	\$
3. How much, if any, "dead" stock does customer carry \$.....
4. Give your conservative estimate of value of fixtures and some of the principal items included in your estimate \$.....
5. What is the appearance of the store? Check your reply—

Very good	Only fair
Good	Poor
Very poor	
6. Give names of nearest competitors of customer and location of same.
7. What is your judgment as to business ability of this customer. Check your reply.

Very good	Mediocre	Very poor
Average	Poor	
8. Does customer devote any of his time to other matters? Explain. If he is out of store part of the time, who is in charge during his absence?
9. What kind of records and books does he keep, if any?
10. How many people are employed in the store?
11. What explanation can you offer as to customer's failure to pay bills at maturity?
12. Is family extravagant? Does customer have unusual expense at home? Explain.
13. Does he have any bad habits? Please check or give particulars.

Drinks	Inclined to be sporty
Gambles	Spends too freely
Speculates	Not attentive to business
Other remarks :	
14. From whom are principal purchases made? Give names and addresses.

Date.....

Salesman.

Credit Hazards in War Industries

Important Points to Check on Production Orders

CLet us consider the fundamental points involved in war orders. We know that some credit men today consider it a patriotic duty to extend unlimited credit without question to an organization producing for war. I believe that is the lazy man's attitude of approach. There's nothing patriotic about it. We must carefully weigh business risks in war time as well as in peace time.

On the other hand, some credit men labor under the delusion that there is no credit risk involved in shipping goods on open account to a firm manufacturing war goods because the Government in many instances is financing the essential war industries. The Government has not legislated the credit man out of a job. Let us study our position and find out just where we fit in the war picture. Are we an economic necessity in an emergency war economy?

We all know that war production calls for vast operations and results in credit extensions of from ten to even sixty times normal requirements. For example, a producer of raw materials in peace time extends to customer X, a high credit limit of \$1,000. Now, customer X has secured a substantial war order and our raw materials man is called upon to raise that high credit from \$1,000 to \$60,000.

"Three C's" Still Apply

CREDIT is still extended on the basis of our fundamental three C's. We know that the management personnel of a firm must have Character; the organization must have some Capital—particularly working capital to finance its normal operations, but most of all, our war industry customer must have Capacity. Capacity to produce is of utmost importance right now. The management should also have capacity to figure costs and budget expenditures. In addition, the management should have

By **WILLARD BECKER**
*Auditor, Norton Door Closer Co.
Chicago*



the ability to figure tax liabilities. In connection with this, some one in the organization should be a tax expert, or some tax experts should be retained on a fee basis. Many producers of war goods do not realize the growing importance of the tax factor in securing profits. Many are jeopardizing their own working capital by anticipating substantial earnings which will be subject to huge Federal Income and Excess Profits Tax payments.

I take the stand that it is unnecessary to compromise with safety in extending credit to war industries. Our banks and financial institutions do not compromise with safety; why should we, as merchandise creditors use less good judgment than do the bankers? Remember, a war contract secured by your customer is no guarantee that you will get paid for the merchandise you are shipping. There are no particular provisions for the

satisfaction of creditors. A war contract is not an asset but a *distinct liability* until that contract is fulfilled.

We Must Learn the "Ropes"

IT is our duty as credit managers to acquaint ourselves with all of the new credit mechanisms, acts, contracts, sections, Government orders, which have been issued and which are being issued in order to protect our firms in this National War Programme. To illustrate the fact that the war has brought us new problems, I will illustrate *some* of the various Government acts affecting our industries. I will just attempt to name them and tell you in a few words what they are. You, no doubt, are acquainted with them.

We start out with the Certificate of Necessity. This must be sponsored by the Army or Navy in order to certify that the war industry in question is necessary to produce the requirements for war. We should also acquaint ourselves with the regulations prescribed by the Secretary of War and the Secretary of the Navy governing the issuance of Necessity Certificates under Section 124 (f) of the Internal Revenue Code. These regulations allow deductions to corporation income tax returns; provide for the amortization of cost of the emergency facilities over a period of sixty months or less.

Then, there is the Emergency Plant Facilities Contract. This provides that the Government may agree to reimburse the manufacturer for the cost of additional plant facilities at the rate of 1/60 per month for five years. This contract is bankable and assignable. The manufacturer in this instance uses his own capital and must get a Government okay on plans and facilities. Sometimes the manufacturer has not erected plant facilities as prescribed by the Government and the contract is held up until proper adjustments have been made.

This contract was used by plane manufacturers and other war industries, particularly during the defense phase of war activities. It tied up the manufacturer's working capital and since January 1, 1942, has not been used to any great extent, if at all. Of course, contracts entered into prior to the first of this year are still in force.

How Defense Plant Corp. Helps

A DIFFERENT arrangement is now being used by most war industries today. The Defense Plant Corporation, a wholly owned subsidiary of the RFC, owns the new plant and facilities erected for war production. The manufacturer acts as its agent and runs the plant. This set-up is very popular now and many of the gigantic war factories being erected today are under this plan. Obligations incurred in the erection and maintenance of these facilities are obligations of the Defense Plant Corporation and should be billed as such.

On October 9, 1940, the Assignment Claims Act of 1940 was passed. It permits the assignment to banks and other financing institutions of all moneys due or to become due from the United States under a contract providing for payments aggregating at least \$1,000. For approximately one hundred years, Congress prohibited assignment of Government claims. Some of you remember, and all of you have read, about credit conditions during World War I. The manufacturer holding the Government contract, was unable to assign his contract to the bank, but his banker would usually advance him a loan on the strength of the fact that the manufacturer did have a war contract. This arrangement was not particularly satisfactory to the bank and it is assumed that the Assignment of Claims Act will enable the banks to grant loans more freely and will do much to facilitate the financing of our War Programme through private institutions.

It is interesting to note that the Supplies Contract provides for production of war supplies. It is also bankable and assignable. Standardized clauses are either being or have been drafted by the authorities in Washington and they will undoubtedly contain the so-called 'Bankable Provisions' similar to those in the Emergency Plant Facilities Contract.

It is to be noted that the Emergency Plant Facilities Contract provides only for the acquisition of construction of plant facilities for the purpose of producing supplies for war. The Supplies Contract provides only for the production of such supplies.

Study Regulation V

THE President's Executive Order No. 9112 known as regulation 'V' provides for the guarantee by the War Department, Navy Department, or Maritime Commission, to banks or other financial institutions against loss on loans to finance war orders. Every one should study regulation 'V' carefully because it is taking the place of advanced payments. The Federal Reserve Bank will act as fiscal agent in arranging loans and guarantees. Each Federal Reserve Bank should arrange war financing where practical, without any guarantee or loan or participation therein by the three Departments mentioned, but where this arrangement is not feasible or practical, guarantees of loans by the War Department, the Navy Department, or the Maritime Commission, are made to banks or financing institutions to the extent necessary.

Most of the difficulties I have experienced in extending credit to war industries are in cases where the customers were not strong financially before the shooting started. In some instances, the RFC extended them loans, five, six, and seven years ago, and they have been unable to reduce these loans substantially during peace time. Occasionally, general creditors have been called upon to subordinate their old claims to the RFC obligations or settle at so many cents on the dollar. Now when these manufacturers are called upon to extend their capacity to produce war goods, the RFC is extending them increased amounts to cover the erection of new plant facilities and the purchase of machinery and equipment. In this case, the RFC has a lien or mortgage on almost every asset of value and a merchandise creditor has little protection. Then the customer calls on his merchandise creditors to extend him special terms as a patriotic duty because the customer is engaged in producing war essentials. In my opinion, such a call is not for patriotic duty, but is a call to financial suicide.

Now, what do all these Acts mean to us? They mean that whole

the three C's of credit — Character, Capital, and Capacity are still fundamental, our standards of measurement must be adjusted to the necessities of war. For example, the balance sheet ratios no longer apply. Many firms with modest capital of their own are called upon to produce, with Government financial assistance, tremendous quantities of raw materials.

It is our duty to find out why our customers are ordering many times their normal requirements and when and how they are going to pay for the material. How can we get this exact information? The answer is difficult and provides a challenge to us as credit men. I have found that the Credit Agencies at the present time record RFC loans which are mortgages on property. This information, of course, comes from the County Recorder's Office and presents nothing new.

Our own salesmen can and will with the proper presentation of our problem give us the preliminary information that we require. It is up to us to analyze our own individual problem and determine what information we want from those accounts of ours which are engaged in war industries, and have our contact man—the salesman—make the approach. Sometimes the salesman will be able to get all the information we need; at other times, the credit man must follow through with a personal call.

Confer With Bankers

IN many instances, your own bank will be able to give you some good advice as to the best methods to secure particular and specific information. In some territories, special agency reports regarding the personnel of new organizations and re-organizations of firms producing war essentials, are available. I believe that in many cases when the amounts involved are substantial, we, the credit men, must go to the customer direct and find out just what his financial arrangements are. When we get the complete story, we should go to our customer's bank or lending agency for confirmation. Sometimes our customer's bank pays out money from the proceeds of the loan as bills are presented for payment. An official of the bank often countersigns the checks so as to (Cont'd on page 32)

Problems in Non-Defense Industries

Credit Men Face Big Job in Next Months

CF We have all read and talked a great deal, about 'total war', during the last two years, but now that we have it, I wonder just how many of us have, up to this time, actually realized how great an effect this condition is going to have on our every day lives and business.

We have long realized that we are up against higher taxes, which are sure to dislocate and lower living standards in general, but it is now becoming apparent that whole trades and industries, not essential to winning the war, will be displaced, and that in a very short time, we are going to have many industries in operation in the United States, that are not concerned either directly or indirectly with the winning of the war. This situation makes it practically impossible to treat the non-defense industries separately in any discussion as they are so hedged in by conditions and government regulations. In this connection, you will have noted that the anti-inflation program does not provide any encouragement for civilian production, and it now really appears that nobody is taking care of the civilian, and there does not appear to be any government organization devoted to the purpose of seeing that civilian supplies are kept to a reasonable maximum. This is as it should be. All material things must be sacrificed temporarily, now, in order to make certain that we do not lose everything permanently.

These changes are placing a great strain on our system of distribution. In the first place, the jobber or distributor is faced with greatly increased taxes. Then, priority restrictions are making it so that he will be forced to operate with restricted supplies, and inventories of certain types are 'frozen' by government regulation.

By S. C. MUNROE
Henry Disston & Sons, Inc.
Philadelphia

Except for direct or indirect government business, the wholesaler is operating at a tremendous disadvantage. His operating expenses are increasing, although some economies are possibly being made in his sales expense. The present scarcity of merchandise available for civilian use will undoubtedly cause his volume to contract sharply in many instances.

Disadvantages of Wholesalers

IT is expected that metal users should expect a further paring down of supplies as the war effort can use 50% more metal than the United States can produce. In addition, any non-essential production will likely be concentrated among fewer firms, and the distributive trades will be further contracted.

However, the W.P.B. has set up machinery to make a fair distribution of whatever civilian supplies are available through the use of Form PD-IX. The object of this form, is to satisfy W.P.B. that the jobbers stock of any given item is running low, and that he should have a priority rating assigned him under which to purchase more merchandise from the manufacturer. The directions printed on the back of the form are very comprehensive, and we are told by our 'Priorities Division' that it is one of the clearest and most complete sets of directions that has been supplied with any W.P.B. form. This form is for use by whoever buys direct from the manufacturer for resale, and this usually means only wholesalers and distributors, but a retailer may use the form if he is buying direct from the manufacturer.

Price Fixing. Also a Worry

THEN to make the position of the wholesaler more difficult, price fixing arrives and it spells bankruptcy or merger for thousands of small retailers. Next will come rationing and standardization, and in all probability, out go the little stores. It is an unhappy but unavoidable war time formula, but from English experience under somewhat similar conditions, it is to be expected here. Large stores and smaller ones with good foresighted management and cash resources, will fare better, though not too well.

This is all going to work back to the jobber who is already feeling the strain and this strain will become more pressing with each tax period. These people must be given all the assistance possible, within the government regulations, and it seems that the most practical form that our assistance can take, at the present time, is to call all our wholesalers attention to the W.P.B. form PD-IX (mentioned before), and if it is asked, advise him in the preparation of the form.

We are faced with a period during which we are going to have to make many difficult decisions. In making these decisions, one basic thought must be kept in mind, at all time, and that is our affairs must be handled in such a manner that American Industry emerges from the war with its resources and economic strength unimpaired. This is not going to be any easy task, but it is right here that any Credit Department can, and must substitute patriotism and good sound 'horse-sense' for sentiment and decide on any questions such as extended terms, or compromise settlements from the viewpoint of whether, if such requests are granted the ap-

plicant, will be a strong economic unit or will still remain a "marginal" account.

Must Look to the Future

IT might appear, at first glance, that this is a coldblooded proposal, but I think reflection will convince any person that it is the only sound way to prepare for the situation which undoubtedly will face us, at the end of the war.

During the war period, with its destruction and diversion of industries to war production and consequent shortages of civilian supplies a great reservoir of "wants" is going to be built up, both here, at home, and all over the world. This will result in lower living standards, both here and abroad, and it may be that our home standards of living may be reduced for a few years after the termination of the war.

However, it appears from indications (such as the Lend-Lease program and the Atlantic Charter), that the mistakes of the last peace such as crippling reparations and huge war debts which resulted in such fiercely competitive nationalism, are not to be repeated this time.

How Industry Will Help

IF American industry can emerge from this war in an economic condition that will allow it to make a rapid transition from war to peacetime production, it will be able to make a greater contribution to a lasting peace than all the treaties which the diplomats can negotiate.

Without the paralysis which was caused by the usual reparations and indemnities of former peace treaties, world interchange of merchandise should be possible as soon as peace comes and the effect of a raising of the world's living standard to even our present standard, would be the greatest deterrent to future wars that could be brought about.

This is a great opportunity for American industry. One almost unique in history, and we should see that nothing within our power is left undone to place industry in the position, financially and economically, to do its part.

I, Myself & Me

When you hear some folks you know blow and brag, you are reminded of the time when the flea said to the elephant, "Boy, didn't we shake that bridge when we crossed it."—*Exchange.*



J. F. McFadden, President
First National Bank Bldg., Baltimore

•
**OFFICES IN
PRINCIPAL CITIES
OF UNITED STATES
AND CANADA**
•

49 YEARS IN BUSINESS



Anti-aircraft fire seldom makes a direct hit. But a chance shell fragment can be just as disastrous. That's why pilots carry all possible safety equipment, especially a parachute . . . "just in case."

These are dangerous days for business pilots too . . . days when every manufacturer and wholesaler needs safety equipment against unexpected events.

The normal safeguard against credit losses is an efficient credit department. But the abnormal credit risks of these ominous days place an added strain on even the finest and best-equipped credit departments. The War is causing changes overnight . . . changes which may seriously affect your business . . . or the business of your customers . . . changes which may cause severe credit losses.

The best protection against severe credit loss is
AMERICAN CREDIT INSURANCE

An AMERICAN CREDIT policy is the strategic defense employed by thousands of manufacturers and wholesalers to protect working capital and profits against unforeseen credit losses. AMERICAN CREDIT guarantees payment of accounts receivable . . . guarantees reimbursement for losses caused by the insolvency of customers.

Write Dept. C-9 for your FREE copy of our new brochure "*The A-B-C of Credit Insurance.*"

"Guarantees Payment of *Your* Accounts Receivable"

Court Interprets Bond Law

Rules Pitcher Act in New York Protects Materialmen

C Prior to the enactment of the "Pitcher Act" (Section 137 State Finance Law, Chapter 707 Laws of 1938), New York was the only important commercial state in the United States which failed to provide the protection of a payment bond for laborers and materialmen furnishing labor and materials for public improvements.

The New York Credit Men's Association and the Legislative Committee of the National Association of Credit Men had for several years prior to 1938 endeavored to secure legislation in New York modeled on the Federal statute known as the Miller Act, and these efforts were finally rewarded by the enactment of the Pitcher Act.

The Pitcher Act permits the State Controller to require, prior to the approval of a contract for a public improvement for the State of New York, that the principal contractor furnish a bond guaranteeing prompt payment of moneys due to all persons supplying the contractor or a subcontractor with labor and materials employed and used in carrying out the contract.

Ever since the enactment of the statute, the State Controller has made a practice of requiring such bonds, and no question was raised as to the protection which such bonds afforded until in *Chittenden Lumber Company, Inc. v. Silberblatt & Lasker, Inc., et al*, the lower New York courts held that the bond gave no protection to a materialman furnishing materials to a subcontractor unless there was money due or to become due to the subcontractor to which a mechanic's lien could attach. The effect of this decision was to practically nullify the Pitcher Act and defeat the purpose which the credit men aimed to accomplish in supporting the enactment of this legislation.

The *Chittenden* case was appealed to the Court of Appeals, and the New York Credit Men's Association through its counsel Gerdes & Montgomery, were permitted by the court to file a brief amicus curiae.

In a unanimous opinion handed down by the Court of Appeals on July 29, 1942, the court reversed the decision of the Appellate Division, First Department, and held that the payment bond furnished by the principal contractor, as required by the Controller, was an effective guarantee of prompt payment of moneys due to a materialman supplying a defaulting subcontractor with materials used in carrying out the contract.

The principal contractor was SILBERBLATT AND LASKER, INC. The CHITTENDEN LUMBER COMPANY, INC. had furnished materials to DIXON CONCRETE CONSTRUCTION CO. INC. a subcontractor. Dixon defaulted and the work was completed by the general contractor at a cost exceeding any balance due the subcontractor. Chittenden Lumber Company filed a notice of lien and brought an action to foreclose the lien, joining the principal contractor and the surety company on the payment bond, as parties defendant. Other lienors served answers containing counterclaims for the foreclosure of mechanics' liens duly filed by them.

The first cause of action in the complaint was for the foreclosure of a mechanic's lien filed by the plaintiff as a materialman. The Court of Appeals held "There being no fund to which the appellants' liens could attach it follows that, although the appellants as lienors have pursued their remedies under the Lien Law, judgment in their favor on the first cause of action must be denied."

The second cause of action set forth in the complaint was a class

action on behalf of plaintiff and of others similarly situated in which the plaintiff and the other claimants demanded payment of sums due to them respectively from the subcontractor, which demands were based upon obligations incurred by the principal and surety when the labor and material bond was executed.

The principal contractor and the surety company argued that there being no fund to which liens could attach the lienors' right to recover on the bond is defeated, because the statute provides that in order to secure such rights and benefits, a materialman shall file and enforce a mechanic's lien.

The Court of Appeals rejected this interpretation of the statute, pointing out that Sec. 137 of the State Finance Law manifestly has for its purpose the giving of protection to laborers and materialmen in situations of which the one here involved is typical. The Court points out that the enactment of the statute in question was preceded by a Report of the Joint Legislative Committee on State Fiscal Policies (Leg. Doc. No. 41, 1938) which drew attention to the lack of protection given by the Lien Law to those who furnish materials in connection with State contracts. The Report emphasized the need of additional statutory protection for materialmen in those cases where the contractor defaults.

The Court pointed out that the construction of Sec. 137 contended for by the Respondents would give to those who furnish labor and materials on State contracts no greater assurance that they would be paid what is due them than they had before the enactment of the Statute.

The Court said:

"The language of the bond itself, which the Comptroller has approved, gives no indication of the limitation

upon the respondent's obligation thereunder which they now assert. The statement of that obligation follows the language of the statute and guarantees prompt payment by the general contractor of 'all moneys due to all person supplying the contractor or a sub-contractor with labor and materials employed and used in carrying out the contract.'"

"If, as claimed by the respondents, the appellants as materialmen may recover the sums due to them from the subcontractor only in the event there is a fund payable to the subcontractor to which the appellants' liens will attach, there would be no necessity for the bond here in suit. Liability on a bond required by the Comptroller under section 137 was not intended to be contingent upon the existence of a lienable fund. The 'benefits' which the Legislature, by the enactment of section 137, intended to afford laborers and materialmen, are found in the guarantee of payment afforded by the bond in those instances where there is no fund or an insufficient fund, due the contractor or sub-contractor on a State public improvement, against which the enforcement of valid and existing liens may lead to the payment thereof. Thus construed section 137 supplements the Lien Law and Labor Law (Cons. Laws, ch. 31) and affords to laborers and materialmen on State public improvements the added protection which the Legislature recognized as needful.

"The language to be found in the last sentence of section 137—which we think has been erroneously interpreted by the respondents to defeat the appellants' claim against the bond—was intended to limit claims against such a bond to those who have furnished labor or materials in connection with a State public improvement and who, after compliance with the provisions of the Lien Law or the Labor Law, as the case may be, have failed in their efforts to enforce payment of their claims by reason of there being no funds, or a lack of sufficient funds, due the contractor or subcontractor from which such payments can be made."

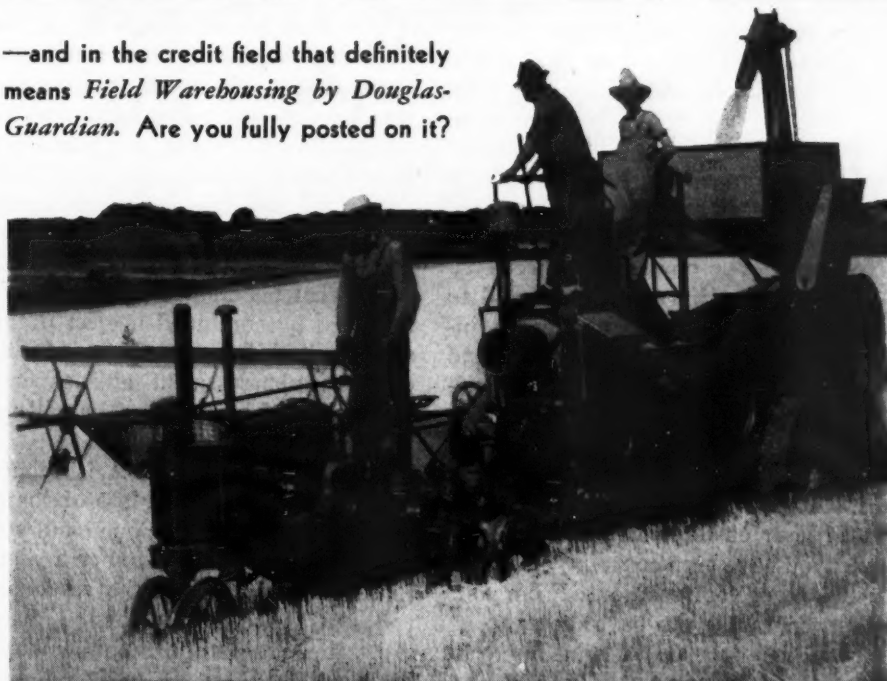
He Got the Point

First Rookey: "Did he call you a block head?"

Second Rookey: "No, he said, 'Pull your cap down the woodpeckers are coming.'"—*Exchange.*

Whether You Produce Foods or Goods Modern Methods Win!

—and in the credit field that definitely means *Field Warehousing by Douglas-Guardian*. Are you fully posted on it?



Field Warehousing By Douglas-Guardian

Above you see a combine in Action. Replaces cutting, binding, shocking, pitching and threshing. Harvesting is made a one-operation job. Field Warehousing by Douglas-Guardian shortens the route to desired bank loans, by converting inventory (raw materials or finished products) into prime collateral.

No matter where your inventory may be, Douglas-Guardian Service will go to it and quickly provide the sound basis for a favorable loan.



If you need working capital or would like to explore the possibilities of getting on a more profitable financial basis, investigate Douglas-Guardian Service. Glad to send a representative from our office nearest you.

HAVE YOU OUR VALUABLE BOOKLET—NEW EDITION? It's Free. Comprehensive information on Field Warehousing and Douglas-Guardian service in pocket size form. Use this coupon.

**BUY
U. S. WAR
BONDS &
SAVINGS
STAMPS
NOW!**

Douglas-Guardian Warehouse Corp

**Nation-Wide Field Warehousing Service
CHICAGO, ILL.
Suite 1104—100 W. Monroe St.
New Orleans, La., 118 N. Front St.
Atlanta, Ga.
Cleveland, O.
Dallas, Tex.
Easton, Md.
Los Angeles, Cal.
Memphis, Tenn.
New York, N. Y.
Philadelphia, Pa.
Portland, Ore.
Rochester, N. Y.
San Francisco, Cal.
Springfield, Mass.
Springfield, Mo.
Tampa, Fla.**

DOUGLAS-GUARDIAN WAREHOUSE CORP.
Suite 1104—100 W. Monroe St., Chicago, Ill.

Please send FREE and without obligation:

☐ New edition of Booklet "Financing the Modern Way."

Company

Address

Attn. of

Credit Letter Psychology

(Continued from page 7)

impression of superiority, it antagonizes. But meet a fellow-being as an equal, and let your letter show him that you have a genuine and friendly interest in him, and you can be reasonably sure he will respond in kind.

It's in the Cordial Tone

THE human heart is constantly seeking in another individual that little spark of interest to which it can respond. The power to project oneself into the life of another, and to make little excursions among his interests expands with practice, and brings rich rewards in human experience. It is this genuine interest in the lives of others that is reflected in the cordial tone of a letter, and promotes goodwill.

If your customer is an established one, you have been constantly building goodwill in your relations. From your first contact, you have been using every opportunity to win his con-

fidence, earn his respect, and develop in him a general kindly disposition toward your house and yourself. If you have been successful, he does harbor that feeling, and you can count upon its influence to reinforce whatever request you make.

Fear

WE must consider fear from two angles: what it keeps a customer from doing, and what it influences him to do. If he is afraid that his competitors will come into possession of useful information about his business if he gives out a financial statement, he will not submit one until you remove that fear. If he is really afraid that his credit standing will be impaired by continued neglect of his account, he will pay it. If he is afraid of the embarrassment and expense of threatened legal action, he will try to avoid it.

Fear in all these cases is related to self-interest, and the loss of something valuable. On the one hand you must reassure your customer against those fears that block the responses you want, as in the case of the financial statement, and on the other hand

you may use fear as a motive to stimulate the response you want, as in the case of collection procedure.

Legal action is, of course, a last resort, and fear as a collection procedure should be sparingly used. It is not conducive to good relations, since it usually invokes resentment. Even when you discuss with a customer the value of his credit standing, it is better to dwell lightly upon the element of fear of its loss, and to place the emphasis upon your interest in helping him to preserve his credit.

General Remarks

WE have covered the principal motivating forces that influence the responses which we as credit men are trying to secure. The manner in which we apply this knowledge will be regulated by our knowledge of our own particular customers as individuals. We must remember that human conduct is complex. A variety of motives may account for the same act, with one predominating.

What an individual does in a given circumstance depends upon many things in his background. Experience, education, and environment make each total human personality unique, and general statements about human behavior can serve only as guides and points of departure for personalized study and application. The credit man must seek constantly to know his customers as individuals if he wishes to work with them most effectively.

Ship in Distress

After a long and continuous discussion between Captain and Engineer as to the relative importance of their jobs with no decision arrived at, they agreed to change jobs.

After some hours of hard, sweaty work, the captain gave it up and started up to the bridge covered with soot and very mad. He met the engineer leaving the bridge and said, with a crestfallen expression: "I give up—I can't keep up steam."

The engineer replied. "Well, that's all right, we're on the beach, anyway."—*Exchange.*

This Month's Horoscope

Length of life does not depend so much on the star under which you were born, as it does on the color of the traffic light when you cross the street.—*Exchange.*





An Employers Mutual Safety Poster *

VICTORY IN '43

Victory must be preceded by production. What we accomplish in '43 depends on what we do in the next few months of 1942. The nation is conscious of the need for production. Our fighting forces anticipate no delays in the delivery of equipment with which to combat our enemies.

Preserve industrial manpower! Safe practices in every operation in your plant will do it. Employers Mutual safety engineers know the safe ways of doing things. Our policyholders agree! Can you use this service in your plant? Ask for our proposal.

Send for a copy

Employers Mutual

LIABILITY INSURANCE COMPANY OF WISCONSIN
HOME OFFICE: WAUSAU, WISCONSIN
OFFICES IN THE PRINCIPAL CITIES OF THE UNITED STATES

14 Questions to Ask Salesmen

(Continued from page 17)

Now here is a question I have always considered vital. Does mother belong to a lot of clubs? Do the children go to college located in some other state? We had a customer in Iowa who had a large family and the man's bread and butter depended on that business. He had a state university within thirty miles of his store, and he could have sent his children to this college. Instead of sending them there, they were scattered all over the United States in different schools they thought were better. You can imagine that the business just couldn't stand the pressure. It is splendid to have your customer want to educate his children, but he can't do it at the expense of his creditors. So that question is very important, "Is the family extravagant?" "Does the customer have unusual expenses at home? Explain." I am here to tell you that question will bring forth some very interesting answers.

No. 13, "Does he have any bad habits? Please check and give particulars?"

Here's One on "Character"

THE salesman is always reluctant to report unfavorable facts; they are forgiving souls, sympathetic, and, of course, every customer is a "fine fellow." But here we have listed the items that we think you will usually find associated with business troubles, and the salesman has to give some sort of an answer: "Drinks, gambles, speculates; inclined to be sporty; spends too freely; not attentive to business."

Now when a salesman knows that he has to go on record on a doubtful case, he will pick out one of these suggested answers. If there is anything particularly questionable it will throw you onto a clue that may save your house some money. Then, of course, we leave a space for other remarks.

No. 14, "From whom are principal purchases made? Give names and addresses."

This is valuable information to have on file and to pass along to the Credit Interchange Bureau for the purpose of compiling a trade report for members, should the occasion for a trade investigation arise.

HELPING BURROUGHS USERS MEET TODAY'S PROBLEMS
WITH THEIR PRESENT EQUIPMENT

What is your ACCOUNTING or OFFICE MACHINE PROBLEM?

Getting more work per machine per day?

Using operating short-cuts . . . making sure that operators are taking full advantage of automatic features . . . using relief operators during idle minutes or hours . . . rearranging routines or the flow of work . . . adapting machines to new jobs—any or all of these might help.

Getting new reports or statistics?

Redesigning forms . . . posting new records in combination with present ones . . . altering procedures to get desired data as a by-product—one of these ideas might get the result you desire without increasing posting time or effort.

Handling a heavier volume of accounting?

Simplified procedures . . . elimination of intermediate media or operations . . . direct-to-the-answer methods . . . employing shifts—all offer possibilities that save time.

Making machines last for the duration?

Regular inspection . . . thorough cleaning and lubrication . . . accurate adjustments . . . replacements of worn parts with genuine new Burroughs parts . . . overhauling, if necessary—these services prevent mechanical interruptions or breakdowns, and prolong the life of your machines.



Burroughs men are ready to assist you. At your call are:
(1) a systems and installation staff that can apply its knowledge of machines, applications and procedures to help you meet your changing accounting requirements;
(2) a factory-trained, factory-controlled service organization fully equipped to render efficient mechanical service to all users. Call the local Burroughs office, or write—
BURROUGHS ADDING MACHINE CO., DETROIT, MICH.

Burroughs

★ FOR VICTORY—BUY UNITED STATES WAR BONDS AND STAMPS ★

Financial Statements in Wartime

Changed Conditions Bring Many Problems

War has brought about significant changes in financial statements as it has upon nearly all peacetime activities. So great have been the changes in amounts and items in financial statements of companies substantially engaged in war production that a comparison of current statements of such a company with those of a few years ago make it difficult for one to believe that they represent the same organization. These transformations are very significant indeed, but they are, nevertheless, primarily changes in emphasis and amounts rather than of basic accounting principles, which should be generally the same during war as in peacetime.

While financial statements are normally tentative in nature, the complexities and unknown factors arising out of war have increased this tentativeness to a point where the finality of such statements may never be completely established. Determination of the amounts of many significant items comprising financial statements in wartime is necessarily dependent upon estimates of the length of the war and the course of future events. At the same time, the one certainty in time of war is that no human being is capable of possessing a correct knowledge of these two factors in advance. Adequate disclosure of significant financial information is, therefore, of paramount importance at the present time.

Despite the far-reaching influence of the war on financial statements, there is a surprising dearth of literature on the subject. This influence, nevertheless, is probably of more direct significance to public accountants than any of the other accounting problems arising out of the war, such as the determination of costs of government contracts and problems of priorities, allocations, price control,

* A paper presented before the Ninth Regional Conference. Reprinted from "The New York Certified Public Accountant."

By **GEORGE N. FARRAND, C. P. A.**

*Research Assistant, Amer.
Institute of Accountants**

etc. While the independent public accountant must familiarize himself with these problems, and is often called upon to advise his client in respect thereof, they are primarily operating problems for management which must usually be settled before the public accountant makes his periodic appearance. It is fitting, therefore, that the subject of "Wartime Problems in Connection with Financial Statements" should be selected as a topic for discussion at this time.

Wartime situations which are likely to be reflected in financial statements are derived in large part from the following sources:

- (a) Great expansion of production and facilities for war purposes
- (b) Government contracts
- (c) Emergency governmental controls, such as price control, profit limitation, priorities, allocations, etc.
- (d) Sudden increase in general price level
- (e) Wartime casualties and contingencies, such as losses from enemy action, renegotiation of war contracts, and postwar adjustments to peacetime economy
- (f) Emergency taxes at greatly increased rates and on highly complex bases
- (g) Indirect factors, such as tax-anticipation notes, etc.

The situations which probably have the most profound influence upon present-day financial statements are those derived from government war contracts. Their proper presentation in financial statements is influenced to a great extent by the legal considerations in each case, such as: restrictions upon the use of cash advances; legal ownership of inventories and facilities; statutory provisions as to renegotiation of con-

tracts; and legal requirements determining the adequacy of claims against the government and the corresponding flow of revenue to the contractor. Contracts themselves are legal documents.

The many ways in which the war has affected financial statements may be emphasized by citing some typical items now being reported in published financial statements. These items and others of a similar nature raise many interesting questions which the accountant must answer in the light of the circumstances of each case.

Cash

MILLIONS of dollars are being advanced to contractors by various agencies of the government and by contractors to subcontractors, to finance the construction of facilities and production of supplies needed in the war effort. These advances are often made with the express stipulation that the funds are to be used exclusively for the purposes designated.

Some form of disclosure should certainly be made in such cases, but the question logically arises whether cash in the amount of such advances should be: segregated within the current assets; shown as a separate asset; or indicated by a footnote to the balance sheet. Many companies have in practice adopted the first-mentioned procedure.

Accounts Receivable

ONE of the more significant changes in the accounts receivable of war contractors is the replacement of receivables of moderate amounts from many customers by very large receivables from a single customer—the government (represented by its many agencies). While all claims against the government must follow rigid legal procedures, once established, a proper claim is

quite certain of being collected, thus reducing the necessity for the bad debt reserve.

Receivables now often include amounts for expenditures incurred which are expected to be paid for by the government either immediately, as in the case of construction for Defense Plant Corporation, or over a period of years, as in the case of emergency plant facilities contracts. Normally, only the amounts of long-term receivables expected to be collected within one year would be included in current assets. Amounts expended under emergency plant facilities contracts are frequently shown as a separate asset or under fixed assets, as will be discussed subsequently. Expenditures incurred on cost-plus-fixed-fee contracts are sometimes classified as receivables, although they are often shown under inventories as "contracts in process." It is particularly important that only such expenditures be included as an asset as may reasonably be expected to be allowed by the government. Many items of cost recognized as proper expenses for corporate purposes are not allowed by governmental bodies in determining costs of government contracts.

Adequate disclosure should, of course, be made where receivables, such as those arising under emergency plant facilities contracts, have been assigned to others, as is provided under the Assignment of Claims Act, 1940.

Inventories

MANY problems are now arising in connection with this account, especially since it includes contract work in process. It is particularly important that ownership of inventories be properly determined, since reimbursements from the government for materials purchased on cost-plus contracts automatically vest ownership in the government and on other contracts government agencies often furnish the contractor with all or part of the material and equipment needed. Some companies show the total amount of inventories on hand and deduct the government-owned amount therefrom. Advances from the government are also frequently deducted from inventories in those cases where the advances are not shown as liabilities. Where the government has a lien on inventories or

other assets as security for advances, disclosure should be made, preferably as a parenthetical statement in connection with the asset as well as the liability.

The ever-present problem of determining the amount at which inventories should be carried is greatly aggravated by various war conditions. Limitation orders issued by the War Production Board may prevent the use of certain materials in the fabrication of non-essential products, and thus freeze all or a part of the inventory for the duration of the war. The setting up of price ceilings by OPA may require inventories to be reduced below cost where cost exceeds the price ceiling. Furthermore, the possible decline in inventory prices after the war has stimulated the setting aside of special inventory reserves and the adoption of the last-in, first-out method of inventory price determination, even in the case of retail stores. The existence of war contracts may influence the significance of outstanding purchase commitments by helping to measure the amount of possible loss thereon, if any.

The cost items included in inventories of war contractors are, in many cases, different from what would appear to be proper in normal times. Such items as overhead and general and administrative expenses are now included in inventories by some contractors. Contrary to the usual concepts of inventory accounting, some companies having war contracts are including unrealized profits in inventory amounts representing uncompleted contracts. This procedure, however, is generally recognized in contractors accounting. One shipbuilding company states its ship construction contracts in progress on the balance sheet at accumulated cost, plus estimated profit thereon, less requisitions paid and approved for payment. Other companies, having cost-plus-fixed-fee contracts, carry inventories of work in process at cost incurred, plus estimated portion of fee thereon, less reimbursements received.

While not directly related to financial statement presentation, the reporting requirements of the Production Requirements Plan, Office of Price Administration, and other governmental agencies may tend to improve the adequacy of inventory

amounts, especially in respect of smaller companies, through the up-to-date record-keeping essential to compliance therewith. On the other hand, the need for uninterrupted production for war purposes, in some cases, has led to the elimination of the usual taking of physical inventories, with consequent limitations as to the adequacy of the amounts at which inventories are carried. The Securities and Exchange Commission has sanctioned this wartime measure in its Accounting Series Release No. 30, issued January 22, 1942.

One company has combined the "cash, inventories, advances, etc., identified with a foreign government contract," in a single caption under current assets. It might be questionable whether this procedure is in accordance with generally accepted rules for balance sheet classification.

Fixed Assets

WHERE a company is not completely engaged in war production, it may be desirable to segregate, on the balance sheet, its investment in war facilities from fixed assets devoted to civilian requirements. While amounts expended on facilities, which will be repaid by the government under emergency plant facilities or similar contracts, are essentially receivables from the government it may be desirable to indicate the gross and amortized amounts of such facilities in relation to the fixed assets caption on the balance sheet. Some companies actually classify the amount due from the government under fixed assets, while others merely state the amount there parenthetically or by footnote, showing the caption itself as a receivable.

Although there is no place in captions of financial statements for facilities owned by the government and leased to a contractor, or otherwise made available to him under production contracts, disclosure of such situations should be made in conjunction with financial statements. It would be desirable also to indicate the cost or value of such facilities, if available.

Liabilities

AS previously indicated, advances to contractors are customarily shown either as current liabilities or as deductions from assets to which they relate. Where (Con't on p. 37)

National Officers, Directors and Committee Personnel

*of the
National Association of Credit Men*

1942-1943

PRESIDENT

Bruce R. Tritton, Vice Pres.
American Stove Co.
4301 Perkins Ave.,
Cleveland, Ohio

VICE PRESIDENTS

Paul W. Miller, Vice Pres.
Atlantic Steel Co.
P. O. Box 1714
Atlanta, Ga.

Robert L. Simpson, Pres.
C. T. Patterson Co., Inc.
800 South Peters St.,
New Orleans, La.

E. L. Blaine, Jr., Vice Pres.
Peoples National Bank of
Washington
Seattle, Wash.

DIRECTORS

C. Callaway, Jr., Crystal Springs
Bleachery, Chickamauga, Ga.

Stuart C. Campbell, Campbell and
Summerhayes, 1420 Hemlock St.,
Louisville, Ky.

Fred J. Carpenter, The National
Supply Co., P. O. Box 28, Torrance,
Calif.

Russell Deupree, Proctor & Gam-
ble, 6th & Main Sts., Cincinnati, Ohio.

Oscar S. Dietz, General Electric
Supply Corp., 2653 Locust St., St.
Louis, Mo.

Frank A. Dudley, General Grocery
Co., Portland, Ore.

William C. Hussey, Levy Bros. &
Adler, Rochester, Inc., Rochester,
N. Y.

Emerson Jones, Continental Oil
Co., P. O. Box 393, Lincoln, Neb.

C. Evan King, General Aniline &
Film Corp., Agfa Ansco Division,
Binghamton, N. Y.

Walter N. Kuntz, Jr., Southwest-
ern Drug Corp., 5th & Mary, Waco,
Texas.

John E. Ledbetter, Northrup, King
and Co., 1500 Jackson, N. E. Minne-
apolis, Minn.

G. B. McKee, Salt Lake Hardware
Co., Salt Lake City, Utah.

James A. Mawn, Gulf Oil Corpora-
tion, 31 St. James Ave., Boston, Mass.

J. A. Monier, Jr., Wesson Oil &
Snowdrift Sales Co., P. O. Box 360,
New Orleans, La.

Harry J. Offer, The Detroit Edi-
son Co., 2000 2nd Ave., Detroit,
Mich.

Thomas W. Peck, Kalamazoo
Vegetable Parchment Co., Kalama-
zoo, Mich.

A. L. Podrasnik, Chicago Times,
Inc., 211 W. Wacker Drive, Chicago,
Ill.

Miss Annie Porter, Santa Fe
Builders Supply Co., Santa Fe, N. M.

Camilo Rodriguez, Davol Rubber
Company, Providence, R. I.

Joseph Rubanow, Manufacturers
Trust Co., 681 8th Ave., New York,
N. Y.

Victor D. Stuart, The Tribune
Publishing Co., 13th & Franklin Sts.,
Oakland, Calif.

J. E. Sugden, Jr., 403 No. Fair-
mont Ave., Pittsburgh, Pa.

J. Henry Wendt, Graybar Electric
Co. Inc., Richmond Va.

Ralph D. Withington, The Phila-
delphia National Bank, 1416 Chest-
nut St., Philadelphia, Pa.

Administrative Committee

Bruce R. Tritton, Chairman, Amer-
ican Stove Co., 4301 Perkins Ave.,
Cleveland, O.

Paul W. Miller, Atlantic Steel Co.,
P. O. Box 1714, Atlanta, Ga.

Robert L. Simpson, C. T. Patter-
son Co. Inc., 800 South Peters St.,
New Orleans, La.

Joseph Rubanow, Manufacturers
Trust Co., 681 8th Ave., New York,
N. Y.

Ralph D. Withington, The Phila-
delphia National Bank, 1416 Chest-
nut St., Philadelphia, Pa.

NATIONAL COMMITTEES

ADJUSTMENT BUREAU

C. Rodriguez, Chairman, Davol
Rubber Company, Providence, R. I.

Harry J. Offer, The Detroit Edi-
son Co., 2000 2nd Ave., Detroit.

Fred L. Lozes, Secy. Treas., New
Orleans C.M.A., 1007 Queen and
Crescent Bldg., New Orleans, La.

Harry J. Delaney, Vice-Pres.,
Meinhard Greef & Co., Inc., 51
Madison Ave., New York, N. Y.

M. D. Pemberton, Secy-Mgr., Ok-

Oklahoma Wholesale Credit Men's Ass'n., 901 Cotton Grain Exchange Bldg., Oklahoma City, Okla.

Stuart C. Campbell, Campbell & Summerhayes, Inc., 1420 Hemlock, Louisville, Ky.

R. E. Rogers, Stubbs Electric Co., 33 N. W. Park Avenue, Portland.

Edw. DeGroot, Secy., Grand Rapids Ass'n. of Credit Men, Association of Commerce Bldg., Grand Rapids.

Fred L. Andrews, Treas., Davis Bros., Inc., Denver, Colo.

C. E. Steele, Hart, Shaffner & Marx, 36 S. Franklin St., Chicago.

CREDIT EDUCATION

William H. Pouch, Chairman, Concrete Steel Co., 2 Park Avenue, New York, N. Y.

Frank C. Knapp, Endicott-Johnson Corp., Endicott, N. Y.

Amos Thornburgh, Goodall Brown Dry Goods Co., Birmingham, Ala.

Bruce G. McFadden, Pratt & Lambert, Inc., 79 Tonawanda St., Buffalo.

J. L. Schoenenberger, Beau Brummell Ties, Inc., Cincinnati, Ohio

R. D. Andrew, American Blower Corp., 8111 Fireman Ave., Detroit.

L. M. Chubbuck, Nebraska Machine & Supply Co., 820 O Street, Lincoln, Nebr.

Arthur J. Bode, Mefford Chemical Co., 1026 Santa Fe Ave., Los Angeles, Calif.

T. C. Russell, Standard Oil Co., 426 West Bloom St., Louisville, Ky.

L. W. Stolte, Fairbanks Morse and Co., Cleveland, Ohio.

T. D. Oxford, P. O. Box 4335, General Shoe Corp., Atlanta, Ga.

Ray F. Bueermann, Aluminum Cooking Utensil Co., Oakland, Calif.

John McNair, Fox Vliet Drug Co., Oklahoma City, Okla.

H. G. Eckhoff, Keystone Steel and Wire Co., Peoria, Ill.

H. C. Culshaw, Pennsylvania Co., 15th and Chestnut St., Philadelphia.

R. M. Shaffstall, Union Oil Co. of Calif., P. O. Box 4097, Phoenix, Ariz.

Albert J. Wagner, Mallinckrodt Chemical Works, 2nd and Mallinckrodt, St. Louis, Mo.

Leo E. Jones, Arkansas Fuel Oil Co., Slattery Bldg., Shreveport, La.

C. S. Haffner, South Bend Bait Co., South Bend, Ind.

R. H. Briscoe, Zellerbach Paper Co., 510 W. Railroad Ave., Spokane.

D. C. Whitmore, Mid-Continent

Petroleum Corp., Waterloo, Iowa.

Edw. G. Kasch, Kraft Cheese Company, 500 Peshtigo Court, Chicago.

CREDIT WOMEN

Mrs. Bobbie Hunter, Chairman, Eaton-Clark Company, 1490 Franklin Street, Detroit, Michigan.

Norma Hamill, Staynew Filter Corp., 25 Leighton Avenue, Rochester, New York.

Irene Austin, Thinshell Products, Inc., 1465 W. 37th St., Chicago, Ill.

Margaret Flaherty, General Motors Acceptance Corp., Continental Oil Building, Denver, Colorado.

Inez Johnson, Chalmette Petroleum Corp., American Bank Building, New Orleans, La.

Blanche Scanlon, Nash Coffee Company, 1330 N. E. Quincy St., Minneapolis, Minn.

Alice Smith, Tuttle Paint & Glass Company, 1616 Bassett Avenue, El Paso, Texas.

Edith Oldfield, C. L. Amos Coal Co., 220 E. Washington St., Syracuse, N. Y.

Lillian Guth, Emerson Radio & Phonograph Corp., 111 Eighth Ave., New York, N. Y.

Harriet I. Russell, Sandura Company, Inc., 1700 Walnut St., Philadelphia, Penna.

Charlotte Madden, James F. Waters Co., Bush at Van Ness Ave., San Francisco, Calif.

Ethel Leonard, Columbia Brewing Co., St. Louis, Mo.

Terese K. Gardner, The Stationers, Inc., 926 Pacific Avenue, Tacoma, Wash.

FOREIGN CREDIT

P. M. Haight, Chairman, Secretary-Treasurer, International General Electric Company, 570 Lexington Avenue, New York, N. Y.

Herman Brock, Vice-President, Guaranty Trust Company, 140 Broadway, New York, N. Y.

Mercer Brugler, Asst. Treas., The Pfaudler Company, 89 East Avenue, Rochester, N. Y.

F. E. Caffrey, Credit Manager, Pittsburgh Plate Glass Company, Ft. Chester Avenue, Newark, N. J.

C. Callaway, Jr., Treas., Crystal Springs Bleachery, Chickamauka, Ga.

T. J. Digan, Vice-Pres., U. S. Steel Export Company, 30 Church Street, New York, N. Y.

J. L. Stewart, Treasurer, Burroughs Adding Machine Company, 6071 Second Boulevard, Detroit, Mich.

P. A. Hoyt, Exec. Vice-President, Oliver United Filters, Inc., 2900 Glasscock Street, San Francisco, Calif.

Z. C. Oseland, Treasurer, Good-year Tire & Rubber Company, 1144 E. Market Street, Akron, Ohio.

LEGISLATIVE

Executive Committee

R. L. Simpson, Chairman, C. T. Patterson Co., Inc., 800 S. Peters St., New Orleans, Louisiana.

DON'T WASTE MATERIALS or LABOR

Prevent fire originating
in your property



The Phoenix

Insurance Company, Hartford, Conn.

1854

The Connecticut

Fire Insurance Co. Hartford, Conn.

1850

FOUITABLE

Fire & Marine Insurance Company

PROVIDENCE, R.I.

1859

ATLANTIC FIRE INSURANCE CO.

Raleigh, North Carolina

THE CENTRAL STATES FIRE INS. CO.

Wichita, Kansas

GREAT EASTERN FIRE INSURANCE CO.

White Plains, N. Y.

MINNEAPOLIS F. & M. INSURANCE CO.

Minneapolis, Minn.

RELIANCE INS. CO. OF CANADA

Montreal, Canada



HARTFORD

30 Trinity Street

CHICAGO

Insurance Exchange

NEW YORK

110 William Street

SAN FRANCISCO

220 Montgomery Street



TIME TRIED & FIRE TESTED

C. H. Rison—Eastern Division Vice Chairman, Grinnell Company, Providence, Rhode Island.

John Ledbetter—Central Division Vice Chairman, Northrup, King & Company, Minneapolis, Minnesota.

Frank Dudley—Western Division Vice Chairman, General Grocery Company, Portland, Oregon.

Committee Members and Districts

DISTRICT I—(Maine, Vermont, New Hampshire, Massachusetts, Rhode Island and Connecticut)

Member supervising National legislative work: Laurence S. Day, W. F. Schrafft and Sons Corp., Sullivan Square, Charlestown District, Boston, Massachusetts.

Member supervising State legislative work: Clarence H. Rison, Grinnell Company, Providence, Rhode Island.

DISTRICT II—(New York and New Jersey)

Member supervising National legislative work: Clarence Riegel, New York Credit Men's Assn., 354—4th Ave., New York, N. Y.

Member supervising State legislative work: Charles H. Bradshaw, Bausch & Lomb Optical Co., 635 St. Paul St., Rochester, N. Y.

DISTRICT III—(Pennsylvania and Delaware)

Member supervising National legislative work: Everett H. Brown, Jr., Shields, Clark, Brown & McCown, 1900 Girard Trust Bldg., Philadelphia, Pa.

Member supervising State legislative work: A. L. Lambie, Blaw-Knox Company, Pittsburgh, Pa.

DISTRICT IV—(Ohio and Michigan)

Member supervising National legislative work: E. C. Brunst, The Gruen Watch Company, Time Hill, Cincinnati, Ohio.

Member supervising State legislative work: H. D. Palmer, Detroit Steel Products Co., Detroit, Michigan.

DISTRICT V—(Maryland, West Virginia, Virginia and North Carolina)

Member supervising National legislative work: William E. Moore, U. S. Fidelity & Guaranty Co., Calvert & Redwood Sts., Baltimore, Maryland.

Member supervising State legislative work: A. D. Crummett, Virginian Electric, Inc., Charleston, West Virginia.

DISTRICT VI—(Georgia, Florida, Alabama, South Carolina, Mississippi and Louisiana)

Member supervising National legislative work: R. L. Simpson, C. T. Patterson Co., Inc., 800 S. Peters St., New Orleans, La.

Member supervising State legislative work: H. S. Collinsworth, Gramling & Collinsworth, 84 Central Avenue, S.W., Atlanta, Georgia.

DISTRICT VII—(Kentucky and Tennessee)

Member supervising National legislative work: Fred W. Edwards, Bush-Krebs Co., 408 W. Main St., Louisville, Kentucky.

Member supervising State legislative work: J. C. Lauderdale, Gray & Dudley, Nashville, Tennessee.

DISTRICT VIII—(Indiana and Illinois)

Member supervising National legislative work: R. A. Carrier, Agar Packing & Provision Co., Union Stock Yards, Chicago, Illinois.

Member supervising State legislative work: A. W. Macy, Indianapolis Glove Co., Indianapolis, Indiana.

DISTRICT IX—(Missouri, Arkansas and Oklahoma)

Member supervising National legislative work: H. E. Bucher, Graybar Electric Company, St. Louis, Missouri.

Member supervising State legislative work: T. B. Hendrick, Collins-Dietz-Morris Co., Oklahoma City, Oklahoma.

DISTRICT X—(Minnesota, Wisconsin, North Dakota and South Dakota)

Member supervising National legislative work: John Ledbetter, Northrup, King & Company, Minneapolis, Minnesota.

Member supervising State legislative work:

DISTRICT XI—(Nebraska, Kansas and Iowa)

Member supervising National legislative work: Fred Harris, John Deere Plow Company, Omaha, Nebraska.

Member supervising State legislative work: L. Motz, Armour & Company, Sioux City, Iowa.

DISTRICT XII—(Texas, New Mexico and Arizona)

Member supervising National legislative work: R. C. Rancier, Southwestern Drug Corp., Dallas, Texas.

Member supervising State legislative

work: A. A. Martin, Momsen-Dunnegan-Ryan Co., El Paso, Texas.

DISTRICT XIII—(California, Nevada, Utah and Colorado)

Member supervising National legislative work: K. J. Koebig, Liquid Carbonic Pacific Corp., 2600 E. 12th St., Los Angeles, Calif.

Member supervising State legislative work: A. I. Hermann, Union Lumber Company, Crocker Bldg., San Francisco, Calif.

DISTRICT XIV—(Washington, Oregon, Idaho, Montana and Wyoming)

Member supervising National legislative work: Frank Dudley, General Grocery Company, 45 S. E. Ash St., Portland, Oregon.

Member supervising State legislative work: O. L. Woods, Fisher Flouring Mills Co., Inc., Seattle, Washington.

Members-at-Large

Joseph F. Miller, Wayne Candies, Inc., Ft. Wayne, Indiana.

T. G. Murphey, Sherwin Williams Company, Cleveland, Ohio.

C. R. Parks, North American Cement Co., New York, N. Y.

F. C. Aldridge, Linde Air Products Co., Birmingham, Alabama.

Forrest S. Walden, Strevell Paterson Hardware Co., Salt Lake City, Utah.

Sub-Committees

Sub-Committee on State Trust Receipts Laws

A. I. Hermann (Chairman), Union Lumber Company, San Francisco, Calif.

R. A. Carrier, Agar Packing & Provision Co., Chicago, Illinois.

A. W. Macy, Indianapolis Glove Co., Indianapolis, Indiana.

C. H. Rison, Grinnell Company, Providence, R. I.

Sub-Committee on Assignments of Accounts Receivable

Frank Dudley (Chairman), General Grocery Company, Portland, Oregon.

E. C. Brunst, The Gruen Watch Company, Cincinnati, Ohio.

Laurence S. Day, W. F. Schrafft & Sons Corp., Boston, Mass.

A. L. Lambie, Blaw-Knox Company, Pittsburgh, Pa.

Sub-Committee on Bankruptcy

Everett H. Brown, Jr., Shields,

Clark, Brown & McCown, Philadelphia, Pa.

A. D. Crummett, Virginian Electric, Inc., Charleston, W. Va.

H. D. Palmer, Detroit Steel Products Co., Detroit, Michigan.

Charles H. Bradshaw, Bausch & Lomb Optical Co., Rochester, N. Y.

Sub-Committee on Transportation Legislation

Clarence Riegel (Chairman), New York Credit Men's Assn., New York, N. Y.

W. E. Woollenweber, Wheeling Steel Corp., Wheeling, W. Va.

F. H. Janke, American Brake Shoe & Foundry Co, 230 Park Ave., New York, N. Y.

H. C. Crout, Colorado Fuel & Iron Corp., P.O. Box 1920, Denver, Colo.

T. H. Steffens, Sand Springs Railway Co., Sand Springs, Okla.

MEMBERSHIP

R. C. Wilson, Chairman, First Nat'l Bank, Salt Lake City, Utah.

Howard S. Almy, Collyer Insulated Wire Co., P.O. Box 61, Pawtucket, R. I.

H. G. Bauers, Carpenter Paper Co., 27 E. Grand, Oklahoma City, Okla.

F. S. Bennett, Aluminum Cooking Utensil Co., New Kensington, Pa.

S. C. Brennom, Paper, Calmenson & Co., 975 East 7th St., St. Paul, Minn.

Raymond Cheatham, Gordon Metal Co., 211 S. 14th St., Richmond, Va.

Otto E. Dreutzer, Alms & Doepke Co., Central Parkway, Cincinnati, Ohio.

V. C. Eggerding, Gaylord Container Corp., 111 N. 4th St., St. Louis, Mo.

S. E. Eichman, Harbauer Co., Wall St., Toledo, Ohio.

Nash Eldridge, J. P. Stevens & Co., 350—5th Ave., New York, New York.

Chas. E. Fernald, 1737 Chestnut St., Philadelphia, Pa.

Lester F. Fishbeck, Coast Packing Co., 3275 E. Vernon Ave., Los Angeles, Calif.

Wm. A. Foote, The Texas Co., 10th Floor, Rand Bldg., Buffalo, N. Y.

Arthur L. Franklin, Pittsburgh Plate Glass Co., Paca & Redwood Sts., Baltimore, Md.

J. H. Frazier, Great Lakes Steel Corp., Ecorse, Mich.

W. F. Gay, Graybar Electric Co., 400 S. Austin St., Dallas, Texas.

Wm. C. Grauel, Merchants National Bank, 11 S. Meridian St., Indianapolis, Ind.

M. F. Harter, Weirton Steel Co., Weirton, W. Va.

Clifford Heath, Sealright Corp., Fulton, N. Y.

W. C. Hodgdon, Procter & Gamble Distributing Co., 1900 Euclid Bldg., Cleveland, Ohio.

E. A. Johnson, Schlumberger Well Surveying Corp., 2716 Leeland Ave., Houston, Texas.

James N. Jones, Decatur Hopkins Co., 93 Berkeley St., Boston, Mass.

E. C. Junker, Eastman Kodak Co., 343 State St., Rochester, N. Y.

J. F. Mowrey, McKesson-Duff Drug Co., 1132 Market St., Chattanooga, Tenn.

W. G. Nelson, Livestock Natl. Bank, Stockyards, Sioux City, Iowa.

Chas. F. J. Noble, American Oil & Supply Co., 238 Wilson Ave., Newark, N. J.

Siegfried Overstraeten, Van Cleef Bros., 7800 So. Woodlawn Ave., Chicago, Ill.

Earl E. Reeves, Ft. Wayne Drug Co., Ft. Wayne, Ind.

J. Coy Reid, First Natl. Bank & Trust Co., 42 Church St., New Haven, Conn.

Clyde B. Sauve, Sunset Elec. Co., N.W. 6th Ave. and Glisan St., Portland, Oregon.

Ben O. Schwarz, Waterman Waterbury Co., 1121 N.E. Jackson St., Minneapolis, Minn.

Haskell L. Simpson, So. Ind. Gas & Elec. Co., P.O. Box 569, Evansville, Ind.

A. E. Slack, I. W. Phillips, Morgan & Bell Sts., Tampa, Fla.

Albert P. Spaar, Woodward, Wight & Co., 451 Howard Ave., New Orleans, La.

POST-WAR CREDITS

Paul W. Miller, Chairman, Atlantic Steel Company, Atlanta, Ga.

William Fraser, J. P. Stevens Co., 350 Fifth Ave., New York, N. Y.

P. M. Haight, International General Elec. Co., 570 Lexington Ave., New York, N. Y.

William H. Pouch, Concrete Steel Co., 2 Park Ave., New York, N. Y.

Robert L. Simpson, C. T. Patterson Co., New Orleans, La.

Charles Wells, Brittain Dry Goods Co., St. Joseph, Mo.

TIME-TESTED

—77 years old



• **FOUNDED IN 1865**, Millers National Insurance Company is deeply rooted into American life and tradition. It has a seventy-seven year history of trustworthy dealings with many thousands of satisfied policyholders. Illinois Fire Insurance Company appeared upon the early scene of 1876. Age and dependability do go together.

MILLERS NATIONAL

Insurance Company

ILLINOIS FIRE

Insurance Company

HOME OFFICE: CHICAGO

PUBLICATIONS

Joseph Rubanow, *Chairman*, Manufacturers Trust Company, 681—8th Avenue, New York, N. Y.

Mark D. Stevens, *Vice Chairman*, Heywood-Wakefield Company, Gardner, Mass.

Harry C. Jackson, American Hardward Corp., New Britain, Conn.

Wilson M. Brown, State Planters Bank & Trust Co., Richmond, Va.

R. B. Gratzner, Courier-Journal & Louisville Times Company, 328 W. Liberty Street, Louisville, Ky.

Floyd Egner, The Plain Dealer, Cleveland, Ohio.

Dwight Sherburne, A. Burdsal Co., Georgia & Capitol, Indianapolis, Ind.

Miss Mabel S. Wilke, Continental Scale Corp., 5701 S. Claremont Ave., Chicago, Ill.

E. J. Ball, Brown Shoe Co., 1610 Washington Ave., St. Louis, Mo.

**Credit Manual
of
Commercial Law
out early in November**



A Competent Insurance Agent Knows

When you entrust your insurance to a competent insurance agent, his duty is to see that your business is *adequately* and *completely* insured against all possible hazards. The Northern Assurance Agent is that type of insurance man. He knows the answers to your many insurance problems. He is qualified to survey your plant, analyze your insurance needs and recommend the proper insurance protection.

You are guaranteed further safety because the Northern Assurance Agent will place your insurance with a company which has been doing a world-wide insurance business for the past 106 years.

There is a Northern Assurance Agent in your city. If you do not know his name and address, we will supply it upon request.

NORTHERN ASSURANCE CO., LTD.

135 William St., New York

Chicago

San Francisco



FIRE
INSURANCE
AND
ALLIED LINES

Credit Hazards in War Orders

(Cont'd from page 19) provide additional protection for the bank and for us, too, if we make the necessary contacts and arrangements.

In summarizing all of these points, we must first ask ourselves: Is our own house in order? Is my firm adapting the mechanics of the Order, Billing and Accounting Departments as well as the Credit Department to current needs? Some points of procedure are very elementary, but often overlooked. For example, a certain manufacturer was having a great deal of difficulty in collecting for a particular war order that had been shipped from one of its branch warehouses. After a great deal of expense and delay, it was found that this manufacturer had not followed through and received all of the information and necessary papers from its branch warehouses. It had billed the customer direct whereas the billing should have been to the Defense Plant Corporation with John Jones & Company as agent. The required number of certified invoices were not furnished; the reference to the confirmation order was not complete. All of these omissions resulted in months of delay.

We Must Handle Red-tape

WE must resign ourselves to the fact that we are going to have much red tape to handle. Under the present war emergency, certain procedures are required and the sooner we make sure that our organizations are equipped to comply with all of the Government regulations, the sooner our collection efforts will be rewarded.

We must ask ourselves: Can our customer's management cope with all of the problems of turning his business from a peace to a war footing? Is the customer properly financed to take care of our merchandise bills in accordance with our regular terms? I believe that we must insist on regular terms because under many of the present financial arrangements, there is little or no reserve left for us; all assets are assigned, or pledged, or mortgaged.

Then we must ask: What are the terms of our customer's termination clause in the War Contract he is hold-

ing? In case hostilities suddenly end, as we all hope they will, what about his undelivered war orders in a finished or semi-finished state in which we may have an interest because of our extension of merchandise credit? Will the adjustment clause in the termination agreement allow him to recover his cost so that he can pay us? Will our customer have the ability to convert his business from a war basis to peace time needs when the last shot is fired? Finally, we must ask ourselves: Are we willing to assume this burden of credit management under a war economy? Are we going to be order-checkers or are we going to be real credit managers in every sense of the word?

Government Contracts to Be Renegotiated on a Fixed Price Basis

ANNOUNCEMENTS made in Washington during the last days of August, indicate that the now famous "Cost-Plus-a-Fixed-Fee" contracts for war items will be discontinued by the Army, the Navy and the Maritime Commission. Instead all purchases will be made on a "negotiated" basis. An article in the August 19 issue of the New York Times explained the change from "cost-plus-a-fixed-fee" basis to a "negotiated basis" as follows:

"To renegotiate cost-plus-fixed-fee contracts for the purpose of lowering costs it has been found necessary to check nearly every item which entered into them. The time-wasting character of this procedure is one of the chief reasons why a change-over is to be made as quickly as possible to fixed-price contracts, it was explained.

"In a joint statement setting forth policies and procedures for renegotiation, the price adjustment boards for the Army, Navy and Maritime Commission allowed it to be inferred that they did not believe the flat profit limitation proposed for war contracts in some Congressional circles would be practicable. They made it obvious that they were guided by the following principles:

"Reasonable profits should be allowed to encourage maximum war production at low cost.

"No fixed formula for determining reasonable profit is contemplated, since an attempt to apply it to all

(Continued on page 33)

NEWS ABOUT CREDIT MATTERS

A section devoted to
Credit Association affairs

September, 1942

Copy deadline
15th of month

NIC Chapters Plan Credit Education Work for '42-'43

New York—With the theme "Wartime Alertness—All Time Preparedness", the New York Chapter of the NIC has planned its educational program for the current year, under the leadership of Educational Chairman A. Melville Jackman of Edmund Wright Ginsberg Corp., who is Vice-President of the local Chapter. Mr. Jackman is active as head of the local group because Frank R. McGoey of National Carbon Co., who was elected Chapter President in May, has been called to service.

In his opening letter about this year's courses, Mr. Jackman says, "Our economic life today and during the period of hostilities will be gauged to the war effort. After the war there will be a great boom in building, automobiles, banking, refrigerators, radios, clothing and many allied fields.

"The business interests of the country won't have time to train you then. It will be presumed you have trained yourself and if you have, your chances for success are good. If you have not, the parade will pass you by."

In a succeeding letter, Mr. Jackman points out that "conditions in the war era of today and the post-war era of tomorrow make specialized knowledge in all branches of business absolutely essential.

"In fact, Dr. George F. Zook, President of the American Council of Education, recently stated that this need may actually compel the government to draft youths for study even as it may have to draft workers into essential industries. Your educational training, therefore, should not be postponed.

"Consider carefully the advantages of a well balanced program of education for credit management. Register now at the Institute and arm yourself for future opportunities and success."

Kansas City—Plans are well advanced for the fourth year of the Kansas City Chapter of the NIC. During the latter part of September it is expected that three subjects will be offered, among them Business Law. Membership in the association or attendance at previous classes is not necessary to participate in this year's program.

Syracuse—Plans for the current educational year of the Syracuse Chapter have
(Continued on Page 36)

Payment Bond is Restored on All War Department Contracts

The meeting of the National Board of Directors of N.A.C.M. will be held in Chicago at the Edgewater Beach Hotel on September 24th, 25th and 26th. This fall meeting was originally scheduled for Detroit, but, owing to crowded conditions in the motor city, the meeting has been transferred to Chicago. The Secretary-Managers of the Central Division also will meet on September 22nd and 23rd.

Announcement was made in Washington just as the September issue went to press of a new directive issued by the War Department calling for the inclusion of payment bonds in all contracts for war materials after September 1st. Performance bonds, which were eliminated several months ago, will not be restored at this time.

The National Association of Credit Men can be credited with this change in the attitude of government officials, as to the proper protection of material suppliers on war contracts. Several conferences have been held within the last few weeks with the officials in Washington having such matters under their supervision. Other conferences were held in New York and Chicago with officials of bonding companies regarding a possible reduction in the premiums charged for payment bonds on government contracts. A schedule of new rates was announced early in August as a cooperative gesture toward the government and credit men in order to hasten the restoration of payment bonds on government contracts.

The question of credit on government orders will hereafter be considerably simplified because of this decision on the part of the War Department regarding payment bonds. The bonding companies thus serve as a clearing house for Capital, Capacity and Character information and will also serve as a backstop on the question of payment.

This change of attitude on the part of the War Department regarding the use of payment bonds no doubt will speed up the routine of handling war orders in the future.

"In determining reasonable profit a higher rate is allowed if the manufacturer has taken the chief risk and a lower if the government has taken it.

"It was announced that the Army price adjustment board has already renegotiated contracts with forty or fifty companies. It will handle renegotiation in future on a regional basis. Some 500 different cases are being assigned to fifty different regions and will be followed by thousands of others. The Navy and Maritime boards handle their cases in Washington."

Newark Expects Big Crowd for Tri-State Meet

Newark: On October 15th, 16th and 17th credit men of New Jersey, eastern Pennsylvania and New York State, will



H. M. Auld, Jr.

gather for their annual fall conference. This is the twenty-eighth annual meeting of the Tri-State Conference which will have as a general theme "Business Trends in the New Economy". Hampton M. Auld, Jr., general chairman of the conference, has arranged a big program for entertaining the guests from three states. The sessions will be held at the Hotel Robert Treat.

The visiting delegates will be given a reception and get-acquainted party on the evening of October 15th. The sessions of the conference proper will start on Friday morning, October 16th at 9:45.

The annual banquet on Friday evening will have as main speaker, Henry H. Heimann, whose theme will be "Credit Builds the Future". Another big program is scheduled for Saturday morning. The main speaker on Saturday will be Dr. Paul F. Cadman.

Government Contracts to Be Renegotiated on a Fixed Price Basis

(Continued from page 32)

types of war manufacture would produce inequities.

Henderson Rules on Sworn Statements

Washington: Price Administrator Leon Henderson has ruled that it is not necessary to file a sworn statement for every invoice certifying that price changes conform to OPA regulations. Administrator Henderson said:

"In making a certification for the protection of the buyer, it is not necessary that a sworn statement accompany each invoice. It will be satisfactory to this office if an appropriate statement is imprinted on invoices and in addition a separate statement is supplied to the buyer by the seller, sworn to by a responsible company official, to the effect that the prices set forth on all invoices being issued or to be issued will not exceed applicable maximum prices established by the Office of Price Administration, and that the company's method of setting its prices has been so established as to achieve this result.

"Presumably no responsible company official would swear to such a statement unless he had at least made himself familiar with the applicable price regulations, carefully reviewed the method of setting prices, and contemplated an appropriate checking from time to time of such prices as were charged."

Retailers Join in Central Committee

Washington, D. C.: 18 National Retail Associations are each represented by their merchant head and paid executive in a central committee recently formed to coordinate the national groups in their efforts to obtain goods for stock and as a means of distributing information regarding the Price Control Law with the effect of Office of Transportation orders on retailing regulations of installment credit and other matters arising out of the war. Among the National Retail Associations represented on this committee are those representing jewelers, variety stores, mail order houses, automobile dealers, dry goods, farm equipment, food chains, furniture, groceries, hardware, clothiers, shoe and chains.

To Talk Foreign Trade

The Meetings Committee and the Foreign Trade Division Committee of the Chicago Association of Credit Men are planning a series of noon luncheons to be held each month during the coming season. Topics of particular interest to credit executives will be discussed by well known speakers.

Dallas: J. A. Farrar, President of the Dallas Wholesale Credit Men's Association, has been honored with the election as director of the Junior Chamber of Commerce of Dallas. His special assignment on the Board of Directors is Americanization which is considered one of the important committee activities.

Detroit Women to Be Hosts at 3-State Meet on October 3rd, 4th

Detroit: Plans are being completed for the Tri-State Conference here on October 3rd and 4th of the Credit Women's Clubs from all of the Michigan Associations as well as those from Chicago, Cleveland, Cincinnati, Louisville and Buffalo. The visiting women will be housed at the Hotel Statler in a special section of the hotel set aside for women guests.

The conference banquet will be held on Saturday night, October 3rd, at the Whit-tier. Mrs. Neyan Watts-Stevens is to be the banquet speaker.

On Sunday morning a breakfast and conference is to be held at the Detroit Athletic Club at which time the program for the coming year in the various clubs will be discussed.

The Detroit Herd of Zebras assisted the Credit Women's Club in running a boat trip recently which netted \$250.00 to the Credit Women's Club treasury for the purpose of entertaining visiting women at the two-day conference on October 3rd and 4th.

Utica: The Utica Credit Women's Group has been engaged and is now working in several groups of war work. They are working in connection with St. Elizabeth's Gray Ladies, War Bond Drive, Blood Bank and Surgical Dressing Work at Faxon Hospital.

Birmingham: The monthly meeting of the Wholesale Credit Women's Club was held at the Molton Hotel on August 10. Carlyle Fraser, president, Genuine Parts Company, Atlanta, and National Director of the Chamber of Commerce spoke on "After the War." Mr. Fraser stressed the fact that due to the unusual technical training women are receiving that many would be retained for highly skilled occupations after the war.

Pittsburgh: Loretta C. Meiers, of the Gearing Lumber Company, is president, Alice Neff, Williams & Co., Inc., vice president, and Pearl Karwan, Credit Association of Western Pennsylvania, secretary, of the Pittsburgh Credit Women's Club for the ensuing year. A fine program of meetings is being prepared to start in early September.

St. Louis: Members of the St. Louis Association are now making up their bowling schedule for the season which will start on September 8th. Albert J. Wagner is in charge of the bowling activities this year.

Chicago: Mr. and Mrs. A. L. Podrasnik are accepting congratulations of their many friends over becoming grandparents. Mr. Podrasnik, of the Chicago Times, Inc., has served as a National Director since 1940.

4 North Central Associations in Credit Conference

St. Paul: Members of the St. Paul, Duluth, Fargo-Moorhead and Grand Forks Associations met in conference on August 29th, at the Fair Hills Resort, Detroit Lakes, Minnesota. This was a meeting of the newly organized North Central Credit Conference Association. H. H. Berg, Dakota Electric Supply Company, was chairman of the committee in charge of program arrangements.

David A. Weir, Assistant Executive Manager, National Association of Credit Men was the speaker at the banquet which closed the all-day session at which the representatives from the North Central Associations discussed their credit problems. A large delegation from St. Paul attended this conference.

LACMA Holds Annual Frolic

Los Angeles: The Los Angeles Credit Men's Association held its annual midsummer frolic on Saturday afternoon and evening, August 29, at the Riviera Country Club in Los Angeles. There were about 400 guests present and all voted it almost comparable with the outing last year at Santa Catalina Island. The frolic started at four o'clock with unique games of skill, which were enjoyed by all as was evidenced by the shouts of laughter. During the games there was a constant undertone of music which was accompanied by the voices of any of those that cared to waggle their tonsils. The music came from a trio who entertained on through dinner. During dinner, prizes were given away to the lucky members. These prizes were donations of the membership of the Association and there were many lovely ones. After dinner there was dancing and funmaking till one in the morning. And so another summer frolic has gone into the annals of history.

Edward F. Addiss Named Special Consultant in Civilian Supply Office

New York—Edward F. Addiss, Chairman of the Board of Credit Fraternity Fund, Inc., has been appointed Special Consultant to the Director of the Office of Civilian Supply, which is under the supervision of Deputy Director Joseph L. Weiner. Mr. Addiss is located in Room 2317 of the Social Security Building, Washington.

Mr. Addiss went to Washington from a post in New York as Administrative Officer in charge of the order of the War Production Board prohibiting use of iron and steel in the manufacture of articles of common civilian use.

Three Managers
Now Engaged in
War Activities

Three executive managers of affiliated Associations in the National Association of Credit Men are now devoting their time to the nation's war effort. As has been previously announced, Henry H. Heimann has been serving the government as a Commander in the United States Naval Reserves.

Early in June, Sam J. Schneider was commissioned a Captain in the United States Army. Late in July Clarence L. Riegel was given a partial leave of absence by the New York Credit Men's Association to take on a special appointment in the Army Specialist Corps.

Sam J. Schneider

Harvey T. Hill, Secretary of the Chicago Association of Credit Men has been appointed Regional Chief of Industrial Salvage in the Chicago region.

Sam J. Schneider being in the regular Army service will be away from his desk at the Louisville Association for the duration. Captain Schneider is assigned to the 355 Technical School Squadron, Jefferson Barracks, near St. Louis, Mo. During his absence, J. K. Scoggan, Treasurer of the Louisville Association will be in charge of the Louisville office. Alan Schneider, son of Mr. and Mrs. Sam Schneider, is an Ensign in the Navy.

The important work which Mr. Riegel of the New York Credit Men's Association will undertake for the Army Specialist Corps will require four days of his time each week.

Clarence L. Riegel

Most of that time will be served in Washington. He will, however, be free to take up the Association activities for two days each week. The Board of Directors of the New York Association designated Raymond Hough, Manager of the Service Bureaus, as administrative officer in charge of Association activities during Mr. Riegel's absence.

At the request of the War Production Board, Harvey T. Hill, secretary of the Chicago Association of Credit Men, has been appointed regional chief of Industrial Salvage in the Chicago region, which includes Illinois, Indiana, Iowa and Wisconsin. He will continue his contact with the Chicago Association, spending a part of each day at the Association offices until the campaign is over, when he will again

devote his whole time to the work of the Association.



Harvey Hill

the premises but also in clearing out obsolete machinery, unusable stocks, obsolete tools, dies, drills, fixtures, etc. Each individual member also is asked to devote some time to calling on the heads of industrial plants to aid in this great war project.

The response to President Nippert's appeal has been immediate and generous. Many members have already signified their willingness to assist in every way possible, even to the extent of giving a portion of their vacation time to make the campaign a success.

Directors Head
Committees In
San Francisco

San Francisco: For some years, the Credit Managers Association of Northern and Central California has followed the policy of having a director as the chairman of each working committee. These directors meet with their committees monthly and report at the regular meeting of the Board. Early in June, President J. S. Ferns appointed the following directors to serve as committee chairmen for the fiscal year ending April 30, 1943.

Executive and Finance, J. F. Jensen; Collection Dept., A. I. Hermann; Educational, F. R. Haswell; Meetings and Program, Joy Lichtenstein; Credit Methods and Practices, Henry Hyland; Membership and Holding, Walter J. Hempy; Publicity, Herbert T. Kelley; Legislative, C. H. Mann; Construction Industries Bureau, H. D. Byers; Credit Groups, C. H. Sondhaus; Relations with other Associations, D. M. Messer; Business Service, P. A. Pflueger.

These directors have selected the personnel of their committees and the report at the last Board meeting was that members were enthusiastic over the coming Association year.

Add New Directors

Willard B. Curtis, Secretary and Treasurer of the Barrett Hardware Company of Joliet, Illinois, and Karl J. Krause, Credit Manager of Coopers, Inc., of Kenosha, Wisconsin, have been appointed directors of the Chicago Association of Credit Men to fill vacancies for the present Association year.

Heimann Talks of
War Problems at
Chicago Association

Nearly 100 members of the Chicago Association of Credit Men met in the Headquarters of the Association Monday evening, July 27th, to listen to an address by Henry H. Heimann, executive manager of the National Association of Credit Men.

The meeting was held under the auspices of the War Activities Committee of the Association. Mr. Heimann discussed war time credit problems.

His observations were briefed by "Domestic Commerce," the official publication of the U. S. Department of Commerce, in its August 6 issue, as follows:

"The National Association of Credit Men advises: Scrutinize your contracts in the light of changing war conditions. Customer goodwill is, of course, essential; but the credit manager must realistically assay the value of his customers. Scrutiny should be extended to Federal business as, in some instances, business creditors awaiting payment of accounts from government agencies are being delayed several months.

"Make sure that the contract was closed with an official possessing the necessary authority, that bids and invoices were properly prepared and presented, and that there was a definite appropriation by Congress for the payment to be made under the contract."

Meek, Koelsch Made
N. Y. Members for Life

New York—Charles E. Meek and William F. H. Koelsch, both retired bank officers, have been made honorary life members in the New York Credit Men's Assn. in recognition of the position attained by them in both the business and credit fields. Both men have been President of the New York Credit Men's Assn. and of the National Association of Credit Men and have served on various committees.

Mr. Meek, who is regarded as the dean of the credit profession, is one of the original 10 charter members of the New York association. His committee service started in 1898, and he is at present Chairman of the Advisory Committee. He retired as Vice-President of Chemical National Bank & Trust Co. recently.

Mr. Koelsch, retired Vice-President of the Chase National Bank, has been active in the association since 1900.

William A. Prendergast of New York and Honduras Rosario Mining Co., who was association secretary from 1895 to 1896, is the only other honorary life member in New York.

Chicago: The annual Credit Group dinner and forum to be held on October 7th will be one of the most important meetings of the Chicago Association of Credit Men this fall. The speaker of the evening will be John K. Langum, Research Department of the Federal Reserve Bank of Chicago, who will talk on "What the War Is Doing to Credits".

Zebraffairs

Los Angeles: A spirited election of new officers for Los Angeles Herd #1, Royal Order of Zebras, resulted in the following zebras being named for the various offices for the year 1942-43: exalted superzeb, Mr. Lester F. Fishbeck, Coast Packing Company; most noble zeb, Mr. Robert M. Murchison, California Hardware Company; royal striper, Mr. Lew J. Ashby, McKesson & Robbins, Inc.; three horse power burro, Mr. Lee Fortner, L. A. Wholesalers Board of Trade; keeper of the zoo, Mr. Ray Daugherty, Bank of America; royal scribe, Mr. R. Downer, L. A. Credit Men's Association; zeb-tary, Mr. S. P. Chase, L. A. Credit Men's Association.

These Zebras took office on September 1st and already a tentative program for the first six months has been outlined. Some of the principal affairs for the coming year are as follows: September 1, a stag dinner party, which is usually held at the home of one of the Zebras; October 22, initiation and fun-fest to which the San Diego Herd has been invited to take part; November 20, Alpha Nu-Zebra party—an annual event given by the girls for the boys; December, no scheduled event for this month due to so many other holiday activities; January 15, big time initiation and hi-jinks—a business meeting followed by a frolic; February 13, Alpine party, at which the Zebras turn to mountain climbing. Unusual enthusiasm prevails within the Los Angeles Herd and this year is expected to be the outstanding one for all activities in the history of the herd.

Qualified Zebras from any of the other herds who might be in this section are most cordially invited to attend any or all of these meetings of #1 herd. Zebra membership card will be their passport.

Toledo: The Toledo Herd of Zebras held the final golf tournament of the season at the Chippewa Country Club on August 20th. The golf play started at 2 P. M. and dinner followed at 7 P. M., several members coming late for the dinner.

Reviews Old Regiment

Pittsburgh: The Pittsburgh-Sun Telegraph of August 9th shows a picture of the members of the 80th Division who recently held their twenty-fifth reunion in Pittsburgh. Among those in the reviewing stand for the big parade was Lieut. Col. John E. Sugden, National Director of N.A.C.M.

Tournament at Cleveland

Cleveland: The annual golf tournament and dinner party of the Cleveland Association of Credit Men was held at the Chagrin Valley Country Club on August 27th. A long list of golf and dinner prizes were presented. E. B. Odenkirk, of the Medusa Portland Cement Co., was chairman of the committee on arrangement.

Get in the SCRAP!

To win the Battle of Production,
U. S. Industry needs:

Scrap Metal — Rubber — Burlap
Bags — Manila Rope — Rags —
Waste Fats

HOW TO TURN IT IN

Sell to a Junk Dealer

Give to a Charity

Take it to nearest local collection
point

Kansas City Has Plan to Foster Par Clearance of Checks

Kansas City: The Kansas City Association of Credit Men has adopted a plan for combatting the non-par clearance of checks through the use of a special sticker by members. This sticker is attached to all invoices. The wording on the sticker is—

"This Invoice Is Payable at Par

"Are your checks payable at a discount? If your bank is a National bank or a State bank which is a member of the Federal Reserve System your checks will be paid at par. If not inquire of your bank and determine the exchange charge, if any, which will be deducted from your check and add that amount to the attached statement.

"Payable at Par

"Sponsored Kansas City Association
of Credit Men

"This Invoice Is Payable at Par"

A recent special issue of "Credit News" put out by the Kansas City Association had this to say about the non-par clearance of checks:

"Non-Par Clearance of Checks arises when a paying bank deducts a fee or exchange in paying one of its own depositor's checks and the fee is deducted from the remittance made by the bank; thus the payee of the check or your firm is charged exchange in the collection process.

"This problem of exchange is not a mirage, as there are firms in this area which pay as much as \$1,500 a month in exchange charges. Most individual charges are in five, ten, fifteen, twenty-five cent amounts, while some are quite high. In the aggregate they are a real burden.

"Our plan is as follows: If possible place a symbol on the ledger sheet of the customer on whose checks you have been charged exchange. When the next invoice or bill is sent affix to such invoice or bill one of the stickers in the enclosed envelope. If you are unable to determine on which accounts such charges are made, affix the sticker on invoices or bills going to such

Creducation

(Continued from Page 33)

been completed by Chairman A. E. Tucker, Wilson & Co., and members of his Education Committee. A course in Advanced Credit Problems is among those that will be offered. It will be based on the "case method" and will feature special lectures by experienced credit executives on various problems of credit management.

Philadelphia—The educational program of the Philadelphia Chapter, NIC, which is sponsored by the Credit Men's Assn. of Eastern Penna., is being developed by the newly-appointed Education Committee which includes Chairman William Stockton, Atlantic Refining Co.; Frank J. Collins, M. A. Bruder & Sons; George S. Newall, Pittsburgh Plate Glass Co.; John A. Eiseman, The Pennsylvania Co.; and S. C. Munroe, Henry Disston & Sons, Inc.

territories where exchange charges on checks are especially bad. Your customer will read the sticker—it is attractive—it is something different. It will create some wonderment on his part and it is quite probable he will ask his banker if his checks are payable at a discount. If the customer's checks are paid at a discount it is very likely the customer will not like the attitude of his banker. From information we have gathered it is very likely that after such a discussion the banker will pay that particular customer's checks at par. This is a subtle way to try to solve a business problem but it appears to be the only approach under present conditions."

Honored by Associates

New York—Alonzo Gore Oakley, vice-president and director of the United States Fidelity and Guaranty Company, in charge of the New York office, was the guest of honor of his associates in the New York office at a luncheon at the Bankers Club in honor of his birthday. Charles E. Finken made the speech of felicitation on behalf of his associates. Mr. Oakley expressed heartfelt acknowledgment of the honor paid him.

Vote Down Rate Raise

The annual meeting of the Commercial Law League of America held at French Lick, Indiana, on August 16th, decided by a unanimous vote not to increase the rates for collection during the war period.

ASSISTANT CREDIT MANAGER; single; age 25, desires a position with a large, progressive, manufacturer. Five years' experience with Tobacco and Stationery companies, handling adjustments, collections, and bookkeeping. Some retail experience with installment and charge accounts. Draft exempt. Write Box J-1, care Credit and Financial Management.

EXPERIENCED FINANCIAL EXECUTIVE AVAILABLE. Has served as corporate officer and director of large textile organizations for past 16 years. Best fitted by experience as credit, financial or personnel executive. Available on short notice. Has excellent record to present at first interview. Address Box J-2, care Credit and Financial Management.

Consideration of Financial Statements of War Production Companies

(Cont'd from p. 27) such items are shown as a liability, the caption is often identified with the related assets or merely described as "contra." Where an advance or other liability is secured by a lien on certain assets, that fact should be indicated on the balance sheet or in a footnote thereto.

The liability for income taxes during wartime is significant primarily because of its amount. In the case of some contractors the amount is so large as to upset completely any past criteria as to current ratios. The large amounts of advances on contracts have similarly affected such ratios.

A closely related matter is the presentation in balance sheets of United States Treasury tax-anticipation notes. In the Institute's Accounting Research Bulletin No. 14 two alternatives were recognized as acceptable procedure—showing the notes as an asset or as a deduction from the tax liability. An examination of several hundred annual reports published since the issuance of this bulletin indicates that both methods have been used extensively, although nearly two-thirds of the companies having such notes showed them as assets. A decision as to the presentation of tax notes may materially affect the current ratio, thus further qualifying during wartime the significance of this well-known guide of credit grantors.

Contingent Liabilities

THE uncertainties of wartime conditions increase materially the ordinary significance of contingent liabilities. The many governmental controls over business keeps its management ever alert to avoid innocent violation of regulations. Where regulations are known by the independent accountant to have been violated by his client, the question arises whether the accountant should report such findings to the authorities or make disclosure thereof in his audit report.

One of the most important contingent liabilities facing war contractors today arises out of the possibility of renegotiation of their contracts

with the government, as provided in section 403 of the Sixth Supplemental National Defense Appropriation Act, 1942. The retroactive adjustment of contracts may have such a profound influence on financial statements of war contractors that it would appear to be mandatory to bring attention to this situation by adequate disclosure in the statements or footnotes thereto. The form of disclosure might vary with the circumstances in each case, but a general statement that the company has operated under contracts subject to the law would probably be sufficient. The vagueness of the statute as to any bases of measurement and danger of prejudicing the position of the contractor, virtually preclude the stating of the amount of possible readjustments prior to their final settlement, which, according to the law, may not be certain until at least three years after termination of the war.

Income

WHILE accounting thought in recent years has been stressing the increasing significance of the income statements, accountants and businessmen have, nevertheless, become more conscious of the fact that even in normal times the amount of net income for a given year is never absolute. The frequent adjustments in income taxes alone are a significant factor in this situation. In time of war the tentative character of financial statements becomes so aggravated (as well as aggravating) that many outstanding accountants have come to question the use of the term "net income" at all. Despite these handicaps it is still necessary and desirable to prepare financial statements during wartime.

One of the more striking accounting transformations which war forces upon the industrial contractor who in peacetime sells on a quantity basis, is the transfer from a general accounting basis to a system of accounting for contractors. He may now report income on the basis of shipments, partial completion of contract, completed contract, or expenditures incurred (in the case of cost-plus-

fixed-fee contracts). On long-term projects like shipbuilding, it may be necessary to estimate the profit on uncompleted contracts for purposes of periodic financial statements.

For companies who have not converted their operations to full war production, it may be desirable to segregate, in the income statement, the civilian operations from results of war production. This is especially true in the case of special work of a non-recurring nature, such as the construction of war facilities by manufacturing concerns for a fee. Two large aircraft companies have recently reported extraordinary income "derived from surcharges in respect of emergency plant facilities" included in the contract price of products produced therefrom.

The question often arises whether income from cost-plus-fixed-fee contracts should be reported at the amount of the fee only or whether costs and total contract prices should both be shown. Where the government furnishes materials, labor, or facilities for the performance of such contracts, the cost figures may be misleading, and in such cases the results may best be shown by reporting the fee only.

The first item in the income statement of one shipbuilding company is labeled "cost of work performed plus estimated profit earned." From this amount is deducted the cost of work performed during the period, being detailed according to material, labor and overhead. Under present censorship regulations, however, it is forbidden in some cases to indicate the volume of business, so that the income statement in such cases might start with a figure representing the profit from operations.

Amortization

IT is generally desirable that amortization of emergency war facilities be shown separately from depreciation on previously existing facilities, and that the basis of amortization be stated. Amortization for statement purposes, however, has frequently been confused with amortization for income tax purposes—two entirely different considerations. While amortization for the two purposes may coincide, neither makes the other axiomatic. The granting of a certificate of necessity should probably set a maximum amortization

period of five years, for book purposes, on facilities subject to such benefit. Several war contractors, however, are providing for amortization in their income statement on the basis of a shorter period, such as three and even two years. It is informative, but not necessarily mandatory, to indicate by a footnote that a certain amount of facilities is subject to amortization on a sixty-month basis for income-tax purposes.

The income statement will not, of course, contain a deduction for amortization of emergency plant facilities being paid for by the government over a sixty-month period. It may be desirable, nevertheless, to indicate as a footnote or in connection with the balance sheet caption, the amount of annual reimbursements for such facilities and the accumulated repayments to date.

Income Taxes

INCOME taxes represent one of the indirect results of war which has a significant influence upon financial statements. The tremendous size of income and excess profits taxes in relation to the income on which they are based makes it essential that these taxes be shown clearly and properly in the income statement. It is generally agreed that, for industrial companies, the provision is preferably shown as the last item in the statement, except possibly for extraordinary deductions. Whether excess profits, state, and foreign taxes should be shown separately is a question which will vary with the circumstances of each case. Another consideration is whether income and excess profits taxes, or reductions therein, should be applied against extraordinary income or losses, especially those arising out of the war.

Interim financial statements issued to date during 1942 have necessarily been prepared without knowledge as to the final provisions of the tax law now in process of preparation. In such cases, it may be desirable to make provision for taxes under existing law and supplement this provision by an estimate of the additional taxes which may be expected to result from the 1942 law, with adequate explanation thereof. A further problem in this connection is the determination of the amount of taxable income upon which the interim provision should be based. Should it be the amount

of taxable income for the interim period or a portion of the estimated total taxable income for the year?

Special War Reserves

AFTER provision has been made for all foreseeable costs and losses applicable to the current period, which can be measured and allocated to the period with reasonable approximation, it may be desirable to make further provision for possible costs and losses arising out of the war which are not presently determinable with reasonable accuracy, by setting up special reserves. The Institute's recent bulletin deals particularly with reserves of this kind. Their significance may be indicated by the fact that nearly one out of every four reports, in a group of over 400 published corporate reports for 1941, mentioned a provision for such a reserve.

Special war reserves are being provided for various purposes. Some are related to the uncertainties of war production; others have been made in anticipation of adjustments during the postwar period. Many of the reserves are for general wartime contingencies, but some are made for specific purposes, such as: decline in the value of inventories, loss on foreign investments, rearrangement of facilities during the postwar period, seizure of assets by the enemy, etc.

The indefinite nature of provisions for these reserves is indicated by the fact that most of them are made in round amounts. Where provisions are stated in odd dollars and cents it would be interesting to know the bases used, since many of the provisions are no doubt based upon an estimate of the length of the war and the course of postwar events. A factor which might modify the amount of a given provision is the reduction in income and excess profits taxes which might be obtained when the actual costs and losses are incurred. Determination of the amount of such a reduction, however, involves a consideration of the tax rate of future periods and the estimated amount of taxable income then expected.

The accountant is faced with a difficult decision when he encounters financial statements where no provision has been made for special war reserves. If provision has been made

for all determinable costs and losses arising out of the war, is it necessary to qualify financial statements where the discretionary type of reserve has not been provided? Provisions of this kind are presumably a question of prudent business administration which more properly falls within the province of management—not that of the independent accountant.

Where reserves of the type under consideration have been provided, how should they be reflected in financial statements? In view of their close relation to the determination of income over a period of years and the present trend toward making charges against income rather than surplus, it would appear that the charge should be made in the income statement. While some companies have made provisions in cost of sales (with or without disclosure) and as other deductions from income, the discretionary nature of the provision and its indefinite character lend substantial support to the suggestion that the provision be shown as a separate item, fully disclosed, either as the last deduction in the income statement, or preferably as a deduction from the otherwise determined income for the year.

In very few cases thus far in the war have the events taken place, in anticipation of which special war reserves have been provided. When that time comes, however, a decision will have to be made as the proper accounting treatment of the reserve and the actual expense or loss for which it was provided. A basic requirement, in such cases, is that adequate disclosure be made and income of the period not be distorted.

General

THERE are many other situations arising out of the war which have a serious effect on financial statements generally. Information ordinarily incorporated in such statements may not be obtainable, as in the case of companies having subsidiaries or operations in foreign countries. Reports on these activities may be prevented through seizure of the assets and even the records, by the enemy, or from interrupted shipping and communication facilities in the war zones. The omission from reports filed with the Securities and Exchange Commission of certain financial information, which might be

of assistance to the enemy, has been authorized by that body.

War unquestionably influences financial statements as it affects all other activities of a nation at war. A helpful guide to the solution of wartime problems in connection with these statements would be to determine carefully the facts and reflect them in the statements according to generally accepted principles of accounting, giving special consideration to full and clear disclosure.

Canadians Study
"Wartime Brands"
for the Duration

A plan to distribute standardized products under a single label, with individual brand names eliminated for the duration, is being proposed to Canada as the next step in the Canadian control of prices and production. "Canada Wartime Brand" has been suggested as a possible label for the standardized models.

The question of eliminating brand names has been raised because the Canadian authorities have limited production on certain consumer goods to a few plants and have converted the remaining plants to the production of war supplies. Up to the present time the plants which are still permitted to produce for the consumer have been producing by agreement with the converted plants a certain proportion of their output for the brands of the converted plants. However, the plants which have been converted to war production have no control over the quality of the article which the nucleus manufacturers produce, though, by agreement, it carries their label. "Moreover," explains *Business Week*, May 30, "the public is likely to lose its respect for individual company brands when it knows—as all Canadians do—that all the products now are produced in one or two plants, and, in some cases, according to a single quality and pattern."

"If trade names are suspended," *Business Week* declares, "the standardized products will be distributed to the trade and ultimately to consumers under one label—such as Canada Wartime Brand. Trade names will be preserved during the period of suspension, and owners will re-

Business Thermometer
Wholesalers' Sales, Inventories and Credits
July, 1942

Sales of wholesalers advanced 9 percent in July, 1942, over the same month a year ago, according to an announcement released today by J. C. Capt, Director of the Census. The gain reported in June of this year as compared with June, 1941, was 11 percent. An increase of 5 percent occurred between June and July of 1942, as against the increase of 7 percent recorded between these months in 1941. Sales for the first seven months of 1942 were 21 percent above the corresponding period of 1941.

This monthly study is conducted jointly by the National Association of Credit Men and the Bureau of the Census. Detailed figures are presented in the following tables in summary for the United States, and insofar as the data permit without disclosing individual operations, by geographic divisions.

Twenty-six of the 35 trades for which separate data was presented in

sume the production of branded merchandise after the war when standardization ends and competition is resumed. Officials believe this plan will protect the interests of trade-name owners better than the use of the names on standardized articles with the production of which they now have no connection."

Canada has already made important reduction in designs and varieties of paper products; design of prints and rayon fabrics have been curtailed; the packaging of fish, tobacco, and other products has been standardized; and clothing economies have been made which are estimated to save enough cloth for one uniform for every member of Canada's armed forces, it is reported. In addition, designs of boilers and radiators have been reduced; as well as the number of sizes of bolts and screws, plumbing equipment, shipping cases, and farm machinery. Rubber footwear styles have been cut from 354 to 65, and full-fashioned hosiery from 40 to 4.—*Industrial Standardization*.

this report showed increases in sales for July of this year compared with July, 1941, seven showed decreases, and two (chemicals, and machinery, equipment, and supplies) remained at approximately the same level. Non-durable lines enjoyed the most substantial increases in dollar volume for July of this year compared with the same month of last year. Sales of full-line wholesalers of groceries and foods advanced 16 percent; meats and meat products, 50 percent; dry goods, 15 percent; shoes and other footwear, 14 percent; drugs and sundries (liquor excluded), 12 percent; tobacco and its products, 11 percent; and confectionery, 30 percent.

Inventories, in terms of dollars based on cost values, at the close of July were down 3 percent compared with June, the fourth consecutive month since December, 1940, when inventories at the end of the month were lower than those at the beginning. Inventories at the close of July, 1942, were at approximately the same level as inventories for the same date last year, continuing the trend in evidence since the first of the year, when inventories fell off each month on the basis of a comparison with the same month of the previous year.

The stock-sales ratio for wholesalers at the close of July, 1942, was 131 as against 137 for July, 1941, and 141 for June, 1942. Of the 31 trades for which stock-sales ratios are shown, 18 registered a decrease in their ratios for July, 1942, compared with those for July, 1941, and 13 showed increases.

Collections on accounts receivable were up more than 12 percent for July, 1942, compared with July, 1941, and 3 percent compared with June, 1942. The collection ratio for July of this year was 90; for July of last year, 80; and for June, 1942, 87. Accounts receivable were slightly greater on July 1, 1942, than on July 1, 1941. Accounts receivable were 3 percent less on July 1, 1942, than at the beginning of June, 1942.

WHOLESALESA' sales and inventories, July, 1942

Kind of Business	Sales—Current Month				Sales—Year-to-Date		Inventory—End-of-Month (At Cost)				Stock-Sales Ratios*		
	Number of firms reporting sales	Percent change July 1942 from		July 1942 (Add 000)	Percent change from 7 Mos. 1941	7 Mos. 1942 (Add 000)	Number of firms reporting stocks	Percent change July 1942 from		July 31, 1942 (Add 000)	July 1942	July 1941	June 1942
		July 1941	June 1942					July 1941	June 1942				
Automotive supplies.....	205	— 8	+ 4	\$4,097	+ 6	\$34,043	101	— 4	— 3	\$4,273	211	198	233
Chemicals (industrial).....	19	— 5	— 1	997	+20	13,633	13	+45	+ 3	758	102	72	101
Paints and varnishes.....	29	— 8	—13	712	+25	21,474	16	+16	+ 4	1,190	215	167	175
Clothing and furnishings, except shoes.....	45	+ 9	+ 7	2,401	+21	23,772	25	+17	+ 4	1,570	220	215	240
Shoes and other footwear.....	32	+14	+24	18,186	+26	117,276	19	+16	— 8	7,149	87	83	120
Coal.....	7	+12	— 2	1,241	+25	11,017	—	—	—	—	—	—	—
Drugs and sundries (liquor excluded).....	121	+16	+ 4	20,359	+16	154,651	37	+18	+ 5	8,577	193	187	205
Dry goods.....	100	+15	+12	16,196	+36	116,864	54	+23	+ 3	27,160	236	225	259
Electrical goods.....	317	+16	— 4	29,357	+ 4	257,819	271	+17	— 8	25,370	91	92	96
Dairy and poultry products.....	27	+30	+12	2,342	+29	17,220	13	+14	— 3	218	36	53	45
Fresh fruits and vegetables.....	86	+16	— 5	6,215	+24	42,018	58	+17	— 9	486	17	18	19
Farm supplies.....	9	+37	+ 3	341	+52	7,265	—	—	—	—	—	—	—
Furniture and house furnishings.....	61	+10	—15	4,379	+24	66,770	33	— 6	— 1	6,988	252	250	209
Groceries and foods, except farm products.....	566	+14	+13	57,793	+16	467,400	354	+ 2	— 5	44,342	127	142	150
Full-line wholesalers.....	322	+16	+15	24,791	+16	186,701	183	+ 3	— 6	19,332	125	149	154
Voluntary-group wholesalers.....	145	+12	+11	20,583	+14	167,956	101	+ 4	— 6	16,601	149	160	178
Retailer-cooperative warehouses.....	21	+ 8	+18	3,755	+15	30,061	12	+ 2	— 5	2,904	114	119	135
Specialty lines.....	108	+16	+ 9	8,664	+21	82,682	58	+15	+ 1	5,505	93	86	98
Confectionery.....	36	+30	+11	615	+29	5,497	19	+11	— 1	290	74	91	86
Meats and meat products.....	94	+50	+11	39,834	+58	247,489	68	— 6	—12	5,669	37	54	47
Beer.....	51	+17	+13	1,472	+25	8,011	39	— 4	—16	304	25	31	34
Wines and liquors.....	32	+21	+19	5,733	+22	44,591	23	+15	+ 6	8,885	171	182	193
Liquor department of other trades†.....	35	+63	+21	6,201	+39	40,609	—	—	—	—	—	—	—
Total hardware group.....	354	+ 1	— 3	38,355	+23	375,512	229	— 9	— 3	48,035	182	199	181
General hardware.....	132	— 4	— 4	20,004	+20	208,859	85	+10	— 2	32,190	223	228	218
Industrial supplies.....	113	+11	+ 1	11,923	+28	114,937	76	— 4	— 3	11,720	140	168	143
Plumbing and heating supplies.....	109	+ 4	— 6	6,428	+22	51,716	68	+17	— 7	4,125	116	138	119
Jewelry.....	33	+22	+11	1,662	+17	14,419	20	— 9	— 3	2,536	240	324	293
Optical goods.....	16	+ 3	+ 5	257	+12	2,376	6	+ 9	+ 1	122	144	137	142
Lumber and building materials.....	47	+ 3	— 3	5,194	+18	35,565	32	— 6	— 5	3,370	86	95	87
Machinery, equipment and supplies, except electrical.....	61	+ 5	— 4	3,680	+16	31,691	40	+10	— 3	4,100	151	168	150
Surgical equipment and supplies.....	21	+ 3	— 1	350	+29	9,119	9	+12	+ 2	300	217	186	212
Metals.....	28	+17	— 5	3,597	— 9	42,408	17	+13	— 5	3,380	138	128	148
Paper and its products.....	98	+14	— 6	6,299	+20	57,671	49	+19	— 1	6,616	192	145	181
Petroleum.....	12	+ 3	— 5	20,179	+21	144,710	7	+43	— 2	1,135	96	54	94
Tobacco and its products.....	128	+11	+ 2	11,830	+11	102,757	43	+ 8	— 2	1,973	47	48	49
Leather and shoe findings.....	14	+21	+ 1	308	+45	2,373	—	—	—	—	—	—	—
Miscellaneous.....	25	+ 7	+ 9	2,473	+17	17,865	30	+33	+ 2	4,223	192	154	196
United States.....	2,739	+ 9	+ 5	\$312,655	+21	\$2,534,785	1,625	+ 5	— 3	\$219,019	131	137	141

* These stock-sales ratios are percentages obtained by dividing stocks by sales for an identical group of firms. ‡ Less than 0.5 percent.
 — Insufficient data to show separately. † Not affiliated with voluntary or cooperative groups. ‡ Chiefly of the wholesale drug trade.

WHOLESALESA' accounts receivable and collections, July, 1942

Kind of Business	Number of firms reporting	Collection Percentages*			Accounts Receivable		
		July 1942	July 1941	June 1942	Percent change July 1942 from		As of July 1, 1942 (Add 000)
					July 1941	June 1942	
Automotive supplies.....	156	79	65	77	—20	— 3	\$3,437
Chemicals (industrial).....	19	83	76	77	— 6	— 4	1,189
Paints and varnishes.....	28	56	50	52	—16	—11	1,374
Clothing and furnishings, except shoes.....	41	55	51	58	+10	—16	4,360
Shoes and other footwear.....	29	57	45	64	+12	—13	10,347
Coal.....	7	85	80	91	+ 8	—11	1,490
Drugs and sundries (liquor excluded).....	50	87	77	87	+ 2	— 1	6,937
Dry goods.....	89	54	48	55	+14	— 3	25,289
Electrical goods.....	293	71	78	70	+ 7	— 3	41,210
Dairy and poultry products.....	20	157	136	156	+ 9	+ 2	1,052
Fresh fruits and vegetables.....	66	210	174	195	+ 4	— 3	1,356
Farm supplies.....	6	86	74	88	+ 6	—51	432
Furniture and house furnishings.....	51	57	51	58	— 4	—13	8,423
Groceries and foods, except farm products.....	448	125	104	117	— 7	+ 1	34,027
Full-line wholesalers.....	225	119	99	112	— 7	+ 3	13,321
Voluntary-group wholesalers.....	118	125	102	117	—11	+ 7	12,785
Retailer-cooperative warehouses.....	18	214	170	185	— 9	+ 7	1,479
Specialty lines.....	87	117	103	109	+ 7	— 3	6,442
Confectionery.....	18	87	69	80	+ 8	— 2	435
Meats and meat products.....	82	193	176	176	+43	+ 7	19,569
Beer.....	17	189	180	146	+ 1	— 5	175
Wines and liquors.....	28	106	95	102	— 7	+ 6	4,161
Total hardware group.....	334	76	64	76	— 5	— 2	49,066
General hardware.....	126	73	59	74	—12	— 4	27,143
Industrial supplies.....	102	84	79	82	+ 6	+ 1	12,686
Plumbing and heating supplies.....	106	70	65	71	+ 7	— 2	9,237
Jewelry.....	26	47	32	37	+19	— 3	3,122
Optical goods.....	14	77	67	73	— 9	— 3	270
Lumber and building materials.....	46	84	78	86	+ 7	— 3	6,441
Machinery, equipment and supplies, except electrical.....	53	68	60	72	— 2	— 1	4,877
Surgical equipment and supplies.....	20	53	48	51	+ 3	— 4	606
Metals.....	27	112	105	114	—23	+ 7	3,239
Paper and its products.....	84	67	62	69	— 8	— 6	9,071
Petroleum.....	9	136	132	133	—17	—13	979
Tobacco and its products.....	85	138	136	133	+10	+ 4	6,351
Leather and shoe findings.....	12	69	52	72	— 1	— 2	298
Miscellaneous.....	24	84	75	76	+ 7	+ 1	2,079
United States.....	2,182	90	80	87	+ 1	— 3	\$251,662

* Collection percentages are obtained by dividing the collections by accounts receivable for an identical group of firms.
 † Less than 0.5 percent.